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Monetary Policy, household finance

Abstract

We propose a novel channel through which unemployment insurance (UI) influences the transmission of monetary policy to consumption. Greater UI generosity induces households to lower precautionary savings and invest in stocks, which exposes their portfolios to greater interest rate risk. Consequently, when a monetary tightening shock depresses stock prices, households that previously benefited from expanded UI programs reduce their consumption. To empirically identify this potential channel, we exploit UI measurement errors that are plausibly unrelated to economic fundamentals, combined with a border-county discontinuity approach. Using high-frequency household consumption data and monetary policy shocks, we document that following a UI expansion, contractionary monetary policy shocks reduce household spending within two weeks of FOMC meetings. Our findings underscore unintended macro-financial consequences of UI: while intended to provide income stability, it can inadvertently amplify the adverse effects of monetary tightening shocks through interactions between labor policy and monetary policy.

Biography

Professor Chanik Jo is an Assistant Professor in the Department of Finance at The Chinese University of Hong Kong (CUHK) Business School. He received his PhD in Finance from the University of Toronto, MS in Management Engineering from KAIST, and BBA/BE from Sogang University. His research focuses on the intersection of asset pricing and household finance. His research has been published in various journals, such as Journal of Financial Economics, Management Science, and Journal of Financial and Quantitative Analysis, among others.

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