

Heterogeneous Response of Consumption to Monetary Policy Shocks*

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Abstract

This paper examines the heterogeneous response of consumption to monetary policy shocks and its impact on consumption inequality. The findings of this paper are twofold. The first finding is that monetary policy shocks induce heterogeneous responses in household consumption. For households with large financial assets, monetary policy shocks that raise interest rates significantly increase consumption. On the other hand, for liquidity-constrained households, monetary policy shocks that raise interest rates significantly reduce consumption. The second finding is that monetary policy shocks increase consumption inequality. Our results suggest a causal relationship between monetary policy and inequality.

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