“The Housing Channels of Monetary Policy”

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Abstract

Monetary policy influences household portfolios and redistributes wealth through multiple channels. We develop a two-sector New Keynesian heterogeneous agent model, in which housing serves a dual role as both a consumption and investment good and can be used as collateral. Our framework captures key transmission mechanisms—\emph{collateral, housing wealth, cash-flow,} and \emph{housing supply} channels—highlighting housing’s crucial role in shaping the response of consumption and residential investment to monetary shocks. We find that monetary policy-induced house price changes account for over half of the transmission to consumption and can induce an asymmetric response to monetary policy shocks. In line with empirical evidence, our model implies that the consumption response to monetary policy shocks vary with each household's net interest rate exposure.