

# **Discussion of “How Should Monetary Policy Respond to Housing Inflation?”**

## **by Bianchi, McKay, and Mehrotra**

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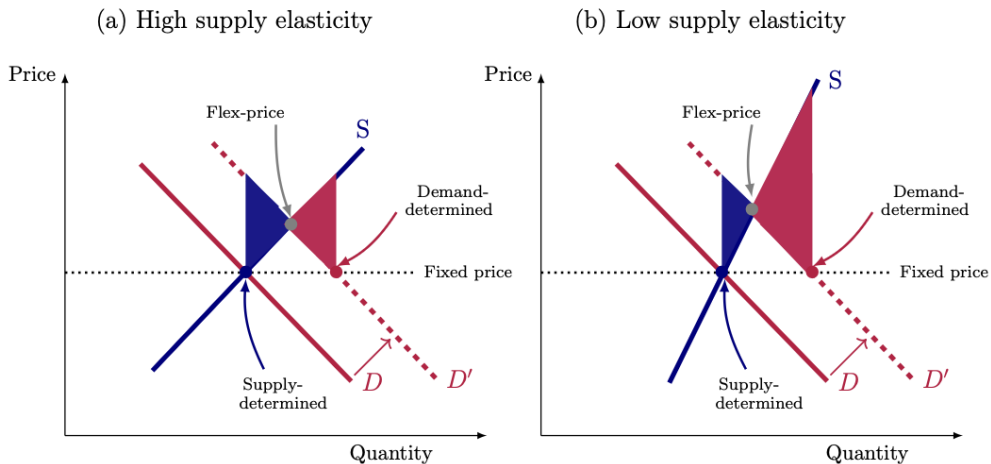
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September 24, 2026

# Today's Discussion

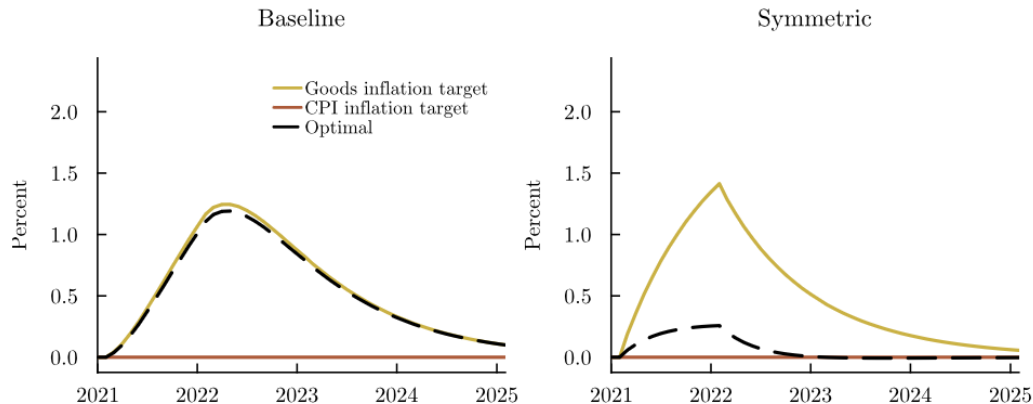
- An extremely well executed paper on an important question
- Documents that optimal policy depends on “how” exchange takes place
- My discussion today:
  1. Quick summary of main result + intuition
  2. Where else might slack and rationing be relevant?
  3. How should one model exchange?

# Welfare Losses Due to Nominal Rigidities: NK vs. Voluntary Exchange

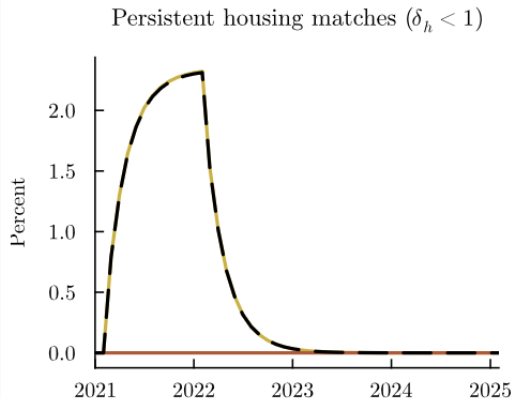
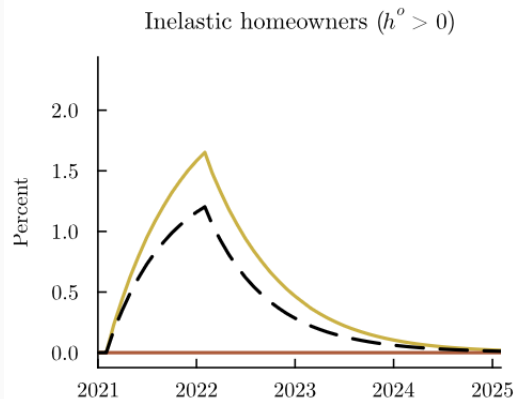


**Figure 1:** Rationing protocols: supply- vs. demand-determined

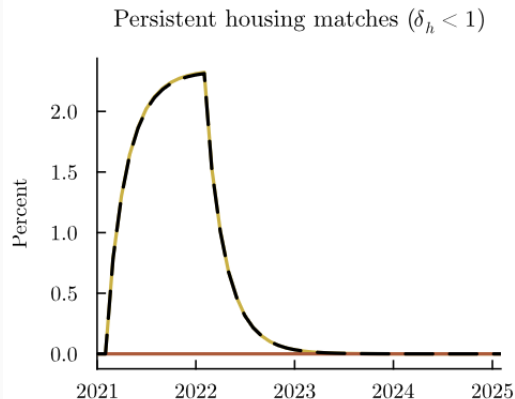
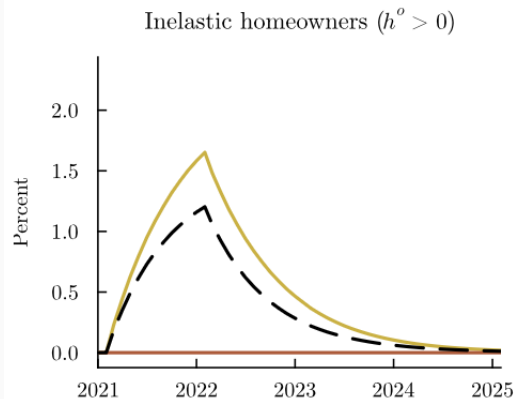
## A “symmetric” calibration implies CPI targeting close to optimal...



... but not with various realistic features of the housing market



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Changes (i) elasticity of housing demand, (ii) sensitivity of demand to interest rates

## How Should One Model Exchange?

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- Alternatives: e.g, NK structure for goods + search in housing, labor

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- Only a small set of highly centralized markets (e.g., stock exchanges) ensure supply = demand institutionally
- **Stockouts** are common and cyclical (e.g., Cavallo and Kryvtsov, '24; Holden, '25)
- Evidence on **waste** (30% of food according to USDA), **capacity utilization** (e.g., Corrado and Matthey, '97), **labor hoarding** (e.g., Fay and Medoff, '85), and **idle time at work** (e.g., Michailat and Saez, '15), **inventories**...

## Initial Approach: Barro and Grossman (1971)

- Household problem:

$$\sup_{c,m,h} \log c + \log h + \log m$$

subject to

$$Pc + Rh + Pm = We + d + T$$

$$c \leq y^s$$

$$h \leq \bar{h}$$

- Firm problem qualitatively similar: cannot sell more than what households buy

## A (Challenging) Combinatorial Problem

- Consumption, employment, and housing demand satisfy:

$$c = \min \left\{ m, A \left( \frac{\alpha A}{w} \right)^{\frac{\alpha}{1-\alpha}}, A \right\} \quad e = \min \left\{ \frac{\alpha m}{w}, \left( \frac{\alpha A}{w} \right)^{1-\alpha}, 1 \right\} \quad h = \min \left\{ \frac{m}{r}, \bar{h} \right\}$$

- Two issues:
  1. Effect of monetary policy discontinuous (regime-dependent)
  2. Dynamics: current state will depend on state in the future (computational challenge)

## Two Alternative Approaches

### 1. Search and matching frictions:

- Extent of slack mediated through market tightness
- Michaillat and Saez (2015): notional supply exceeds notional demand
- This paper: generalizes MS '15 to short-side rule

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## 2. Pricing and production under uncertainty:

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$$\sup_{p,L} \mathbb{E} [p \min\{zp^{-\eta}, AL\} - wL]$$

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- Different emphasis: search behavior vs. pricing behavior

## Concluding Remarks

1. A great and well-executed piece of work
2. The nature of exchange is critical for policy
3. Some markets are not descriptive of the NK commitment assumption
4. Two important directions that I see:
  - Understanding search and pricing behavior **jointly**
  - How do changes in firm behavior affect policy? (e.g., Bigio and Ishide, '25)