Discussion of:

Optimal Monetary Policy and Labor Mobility

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- Price stickiness- An inflation-targeting central bank might care more about the prices of some goods than others:
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  - Monetary policy can improve the allocation of productive resources by stabilizing inflation, measured by a multi-sectoral 'sticky' price index.

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  - Consistent with New Keynesian literature emphasizing 'sticky' prices.
  - Monetary policy can improve the allocation of productive resources by stabilizing inflation, measured by a multi-sectoral 'sticky' price index.
- Sectoral Dependence - Question is about how to determine optimal weights for sectoral prices:
  - In general, this requires considering the complex forms of interactions between different sectors.
  - Literature has so far analysed IO linkages; in this paper authors analyse interactions between sectors through labor market mobility.

Paper finds that..

Optimal sectoral weights depend on the extent of labor market mobility:

1. With 2 sectors, durable (non-sticky) and non-durable (sticky), as labor mobility increases, optimal weight associated with the sticky prices sector (non-durables) increase:
    - If labor is immobile then all adjustment to sectoral shocks happen through prices rather than labor quantity.

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2. Additionally, wage stickiness can be passed through which can affect optimal weight on durable inflation:
   - Even if prices are perfectly flexible in durables sector, wage stickiness will induce some amount of price rigidity.
   - As a result, CB will need to place some weight on the durable sectors to account for this.

Comments: Dependence

In the paper, strategic complimentarity between sectors arises (mainly) through labor mobility:

- In principle, for caliberation, parameters from such a model are not identified without prior restrictions:
  - Authors rely on parameters estimated (previously) from a model without mobility.
  - However, mapping between structural parameters and reduced form parameters of the model not straightforward when co-movement is present between sectors.
  - Perhaps, possible to filter out dependence and evaluate a model with and without dependence like in Foerster et. al. (2011).
  - For inference, asymptotic properties of data that displays dependence, is non-standard - Probability intervals could be invalid because dgp exhbits strong cross sectional dependence.

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- Price-setting behaviour of firms/sectors with labor mobility unclear: optimal price depends positively on the prices set in other sectors, requiring firms to respond heterogeneously (Carvalho, 2006) or to higher-order beliefs (e.g. signals about state of economy) (Woodford, 2002).

- Do results change qualitatively, if input-output linkages are added? Bouakeza et. al (2011) show in a model with input-output interactions and limited input mobility can undermine sticky-price models.

Comments: Aggregation and Structure of shocks

There are aggregate, sector-invariant, shocks in the economy:

- Not clear how aggregation within sectors, of firm level output, is achieved. Typically firms within the same sector are not identical in terms of their position in the price distribution, so aggregation is non-trivial.
- Price and wage markup shocks:
  - The model features wage rigidities, so is it possible that the price markup shock is not fully exogenous, i.e, it is an endogenous response to wage adjustment.
  - Also could it be that labor immobility causes wage stickiness. In that case, a monetary policy rule that also targets wage inflation along with price inflation may be worth exploring.
- What is the response to aggregate shocks, such as the labor shock which hits both sectors? Recent empirical evidence that disaggregated prices appear sticky in response to aggregate shocks, but flexible in response to sector-specific shocks.

Minor Comments

- Welfare and interest rate rules: Ex-ante one would expect the third rule (the most flexible, as ρ is allowed to take more values) to outperform the rest.
- Non-durables is chosen as the sticky sector – how much empirical evidence is there for this?
- Other shocks: what about idiosyncratic shocks to production?

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=> **Overall, great paper; builds a very intuitive story about transmissions of shocks and its effect on monetary policy.**