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The Transmission of Monetary Policy Operations through Redistributions and Durable Purchases

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New Keynesian (NK) models have become the workhorse used by academics and central banks to evaluate the quantitative effects of changes in monetary policy. In these models, the effects of monetary policy shocks on real activity are driven by inflexibilities in prices, wages, or both. Typically, NK models assume that all households are the same and that monetary policy is summarized by a nominal interest rate rule. The way in which the central bank controls the nominal interest rate is usually not relevant in these models and therefore not explicitly modelled.

In our paper, we argue that standard models may miss out on an important monetary transmission channel. We do so by analysing the effects of monetary policy shocks in a simple model without wage and price rigidities. Instead, we model demographic differences among households as well as differences in wealth and income. Moreover, we model explicitly how central banks control interest rates in reality, that is, via the use of *open market operations* (the sale or purchase of bonds by the central bank).

The model realistically predicts that an expansionary monetary policy intervention that takes the form of a purchase of bonds by the Central Bank leads to an increase in output. As in the data, a major component behind the predicted increase in output is expenditures on durables. Importantly, our model predicts that alternative monetary operating procedures can have very different effects on real activity, despite having a very similar effect on the nominal interest rate. The reason is that alternative operating procedures generate different effects on individual households' wealth and consumption-savings decisions as well as on hours worked, depending on their age and the assets they own. Thus, our results challenge the standard presumption that the details of monetary policy implementation are not important.