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The Role of Monetary Policy, Asset Prices, and the Distribution of Wealth in the US

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This paper uses novel quarterly data on the distribution of US household wealth to document several facts about the distributional consequences of expansionary conventional and unconventional monetary policy. After showing the large heterogeneity in the composition of household portfolios across the wealth distribution, we use an internal instrument approach in a Bayesian VAR to show that: (i) Despite raising the wealth level of all households, monetary policy shocks shift the distribution of wealth towards the top tail. (ii) The consequences of monetary policy shocks on wealth shares are temporary and more pronounced in the case of unconventional monetary policy. (iii) The effects of monetary policy shocks across wealth groups are more heterogeneous for right-skewed distributed asset classes, such as equities and liquid assets. (iv) Using a counterfactual exercise to capture the portfolio composition channel, we show that both monetary policy shocks affect wealth inequality primarily via the stock market than through the housing market.

Link to paper: <https://drive.google.com/file/d/1BfU0Y8qZZt29liKwESgD4iqKE2Xz9D5x/view>