ABSTRACT

We exploit cross-sectional variation in US state's responses to identified monetary policy shocks in order to understand the effect of demographics on monetary policy. We find that there are three distinct age groups. In response to an increase in interest rates, the responses of private employment and personal income are weaker the greater the share of population under 35 years of age, are stronger the greater the share between 40 and 65 years of age, and are relatively unaffected by the share older than 65 years. This pattern cannot be explained by the industrial composition of the state and appear to be driven by the greater response of the income of the middle aged and by their consumption behavior, particularly their purchase of new housing.

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