Jennifer La’O opened the discussion asking whether, in the model, import price shocks are isomorphic to productivity or markup shocks. Understanding the nature of the shock matters for policy implications. For example, if the import price shock is as a negative productivity shock, the Federal Reserve should aggressively fight inflation which generates a recession. Hence, to make a statement on whether the Federal Reserve reacts too aggressively or not to the import price shocks, it is necessary to understand the nature of the import price shocks. The authors thanked Jennifer La’O for the comment and explained that the import price shocks are isomorphic to productivity shocks in the model.

Gianluca Violante commented that the model is very rich on the production side but has a representative household, which implies that the aggregate marginal propensity to consume is low. Indeed, in the model presented the aggregate marginal risk to consume is around 3 or 4% which is about three or four times smaller than what it is in the data. The aggregate marginal risk to consume is important for the dynamics and the amplification mechanism of the shocks. Hence, Gianluca Violante suggested having a two-agent model. Furthermore, a two-agent model opens the door to other interesting questions that are important for amplification dynamics. For example, in the model, how is a fiscal stimulus shock distributed? The authors agreed with Gianluca Violante saying that they are not taking a clear stance on the importance of demand in the model. However, a fiscal stimulus would augment the amplification effect discussed in the paper.

Ricardo Reis intervened next and followed up on a point made by the discussant Mathias Trabandt: the Taylor rule is the less accurate calibrated parameter in the model. The benchmark calibrated Taylor rule generates a response of the monetary authority that is much more aggressive than what happened in the last year. Hence, Ricardo Reis suggested the authors do a counterfactual where the monetary authority is less aggressive and more in line with the data. With looser monetary policy, it is possible that the shocks studied in the model can explain more of the inflation than they do now. The authors thanked Ricardo Reis and Mathias Trabandt for the comment on the Taylor rule. They added that they will follow the suggestion and show what happens when a less aggressive Taylor rule is used.

Jason Furman followed up asking why do the authors interpret the import price shocks as a supply shock and not as a demand shock? Imports went up and it seemed like a movement along the supply curve and not a shift of it. Furthermore, at the beginning of 2021 in some cases people were getting more money if they were not working instead of working. Hence, modeling the labor supply during this period is challenging and the model is not facing this issue. Finally, Jason Furman added that globalization affects relative prices but not inflation directly. The authors replied that the import price shock can be seen as a reduction in productivity and, thus, can be seen as a supply shock. Furthermore, modeling the labor market à la Diamond-Mortesen-Pissarides increases the complexity of the model. Hence, it is harder to link wages with inflation.

Gabriel Chodorow-Reich also pointed out to be careful in distinguishing between supply and demand forces and shocks, especially when the focus is on understanding what the role of policy was. Labor supply is an example. It could be that there has been a drop in the labor force due to Covid because people were worried about getting sick. Another possibility could be the wealth effect, given stock prices and housing prices went up, and the relative price of working and not working had changed. Hence, it is important to make a distinction between incentives and shocks. Furthermore, the motivation behind the
movements in wages in the 2000s and the 2020s could be very different. Indeed, in the 2000s labor demand was moving wages, instead in the 2020s, it is labor supply moving wages. Labor supply co-moves with prices and this could be an alternative story to the empirical finding of the paper that the correlation between prices and wages went up in recent periods.

Erik Hurst wanted to know whether the participants agreed to what happened to real wage in the last two years. His assessment looking at the data is that real wages are following. Nominal wages have grown on average around 5% and inflation has been slightly above 5%, hence real wages have been decreasing. This fact is important to understand the calibration of the model and to answer some of the earlier question. The authors replied pointing out that is hard to measure real wages. For example, in other work, the authors find that the wage for the same job for a low skilled worker posted by the same firm after one year increased by 20%. For this reason, the authors have an extension of the model presented with low and high skilled workers. Low skilled workers have a larger elasticity of substitution between intermediate inputs. This extension delivers similar results to the benchmark model.

The last comment was made by Valerie Ramey. She agreed with the discussants and Jason Furman that movements along the supply curve were more important than supply shocks, particularly in light of the huge aggregate demand shocks in the US and in other parts of the world.