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# Monetary Policy and the Relative Price of Durable Goods\*

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## Abstract

In a SVAR model of the US, the response of the relative price of durables to a monetary contraction is either flat or mildly positive. It significantly falls only if narrowly defined as the ratio between new-house and nondurables prices. These findings are rationalized via the estimation of two-sector New-Keynesian (NK) models. Durables prices are estimated to be as sticky as nondurables, leading to a flat relative price response to a monetary shock. Conversely, house prices are estimated to be almost flexible. Such results survive several robustness checks and a three-sector extension of the NK model. These findings have implications for building NK models with durable and nondurable goods, and for the conduct of monetary policy.

JEL classification: E52, E32.

Keywords: Monetary policy, durables, nondurables, price stickiness, relative price.

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