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Monetary Policy and Wealth Effects with International Income Transfers

Lucio D'Aguanno*

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Abstract

I study how a system of international transfers based on dividend income affects monetary policy in a two-country model with incomplete asset markets. I show that macroeconomic shocks alter international transfer payments and determine cross-border wealth effects on labour supply, output and consumption. The direction of these effects depends on the nature of the underlying disturbance: technology and wage markup shocks cause wealth effects that stabilise consumption relative to output, whereas monetary and price markup shocks cause wealth effects that destabilise it. Numerical work shows that this affects the balance of monetary policy between inflation and output stabilisation.

JEL Classification: E52, F41, F42, F44

Keywords: Income transfers; Nominal rigidities; Cost-push shocks;

Wealth effects; Monetary policy tradeoffs.

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