

Banka Slovenije
in cooperation with
the Research Centre of the School of Economics and Business
invites you to a seminar

Government Investment in a Heterogeneous-Agent New Keynesian Model

Author and speaker:
Matija Lozej
Central Bank of Ireland

The seminar will be held at the
Great Hall of Banka Slovenije
on Tuesday, 1 April 2025 at 14:00 CEST

Abstract:

The paper analyses permanent and temporary effects of government investment in a heterogeneous-agent New Keynesian (HANK) model. Permanent effects depend on the source of financing, while temporary effects depend on the reaction of monetary policy. Because an increase in (productive) government investment is a combination of a short-run demand shock and news about future productivity, it is expansionary in the long run if the increase is permanent. However, a temporary increase in government investment can be expansionary in the short run and recessionary and deflationary in the medium run when monetary policy keeps the real interest rate fixed. This happens because productive public capital can crowd out private labour in the medium run, which in a HANK model typically leads to a reduction in private consumption, wages, and marginal costs. This holds under various assumptions regarding public capital formation and its financing. Monetary policy that stimulates aggregate demand can somewhat alleviate contractionary effects in the medium run.

About the speaker:

Matija Lozej is an Advisor at the Central Bank of Ireland, where he is working in the Irish Economic Analysis (Macro Modelling, DSGE models). Previously, he used to work at the ECB (Forecasting and Policy Modelling) and at the Banka Slovenije (Analysis and Research). His research interests are applied DSGE models with labour market and financial frictions, and their interaction with macroeconomic policies. He has also worked on HANK models, with a focus on the interaction of the household heterogeneity and the labour market. Another occasional area of interest is empirical, in particular identification in structural VAR models.

How to sign up:

To sign up for the seminar, please send an email to seminar@bsi.si. You can sign up by Friday, 28 March 2025. The seminar will be held in English.