

Home Production, Services and Monetary Policy*

Constant Lonkeng Ngouana[†]

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Abstract

I first provide a VAR-based evidence that services are more interest-sensitive than nondurable goods. To match that differential, a standard two-sector sticky price model requires an implausibly high degree of sectoral heterogeneity in price stickiness. In this paper, I build a model that mimics the above empirical fact without relying on such heterogeneity. A key feature of the model is the inclusion of a household sector, which produces services at home (caring for children, cooking, cleaning, etc.), that are substitutes to a subset of market-provided services. Therefore, when fixing their prices (following an expansionary monetary policy for example), producers of market-services internalize the fact that households might decide to produce the services by their own at home, if they raise their prices "too much". This causes an endogenous downward shift of the "Augmented" New-Keynesian Phillips curve in the service sector, inducing a higher nominal rigidity in that sector. The higher the elasticity of substitution between the home and market-provided services, the bigger that shift. But, because nondurable goods are not produced at home, firms in that sector do not face the direct competition of the household sector. As a consequence, the real effects of monetary shocks are stronger in the service sector than in the nondurable goods sector, which is consistent with empirical evidence.

Keywords: Services, Nondurable Goods, Household Production, Price Stickiness, New-Keynesian Phillips Curve.

JEL Classification Codes: E12, E32, D13

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[†]Address for correspondence: Département de sciences économiques, Université de Montréal, C.P. 6128, succursale Centre-ville, Montréal (Quebec), H3C 3J7, Canada. E-mail: ca.lonkeng.ngouana@umontreal.ca