Price stickiness along the income distribution*

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Abstract

We combine detailed consumer expenditure data with product-level measures of price stickiness to compute the weighted median frequency of price changes in the consumption baskets of households in each percentile of the US income distribution. We show that the median duration of the prices in these baskets is U-shaped along the income distribution. The price duration of the median good purchased by households at the bottom 5%, middle, and the top 5% of the income distribution is 10.5, 9, and 12.8 months, respectively. This suggests that monetary shocks can have distributional consequences. We cumpute income-specific price indices, and show that following a monetary policy shock, the estimated impulse response of the price index faced by high-income households is 20% lower than that of the price index faced by households in the middle of the income distribution. Finally, we use a quantitative New-Keynesian model featuring sectorial heterogeneity in the frequency of price changes and household-level heterogeneity in income and consumption patterns calibrated to our data, and show that increased income inequality can lower the effectiveness of monetary policy.

JEL Codes: E31, E52.

Keywords: Inflation, distributional effects, consumption baskets, monetary policy.

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