The Intertemporal Keynesian Cross

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February 15, 2018

Abstract

We demonstrate the importance of *intertemporal marginal propensities to consume* (IMPCs) in the transmission mechanism of macroeconomic shocks. We show that IMPCs are sufficient statistics for propagation, amplification, and the determinacy of general equilibrium outcomes. Incomplete markets models with precautionary savings and borrowing constraints capture the shape of IMPCs in the data, while alternative models with complete markets, overlapping generations, or hand to mouth agents cannot. Calibrating our model to existing evidence on IMPCs, we find that Taylor rules can ensure determinacy with a coefficient on inflation moderately less than 1, and that policies that frontload spending, such as tax cuts and deficit-financed government expenditure increases, have powerful multiplier effects.