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The expectations channel of climate change: implications for monetary policy

(with Alexander Dietrich und Raphael Schoenle)

Abstract:

We measure expectations about the short-run economic impact of climate change in a representative survey of US consumers. Respondents expect not much of an impact on GDP growth, but perceive a high probability of costly, rare disasters---suggesting they are salient of climate change. We also document that expectations vary systematically with socioeconomic characteristics, media consumption and various information treatments. We calibrate a New Keynesian model to key results of the survey and spell out two implications for monetary policy. First, climate-change related disaster expectations lower the natural rate of interest substantially. Second, upwards shift in disaster expectations are contractionary.