VIII Calvó-Armengol International Prize in Economics

JURY STATEMENT ON THE SELECTION OF BENJAMIN MOLL

Professor **Benjamin Moll**, affiliated with the London School of Economics and Political Science and formerly of Princeton University, has contributed significantly to the field of Macroeconomics. His recognized accomplishments include being Fellow of the Econometric Society and accolades such as the Leverhulme Prize, a Global Professorship of the British Academy, a Consolidator Grant from the European Research Council, and the Bernàcer Prize.

The jury for the Calvó-Armengol Prize, consisting of Professors Antonio Cabrales, Melissa Dell, Benjamin Golub, and Joan Llull, selected Professor Moll based on his groundbreaking contributions on the role of heterogeneity, whether pertaining to individuals or the constraints they face. Professor Moll's work stands out for its analytical rigor and policy relevance.

Major contributions by Professor Moll include:

Financial Frictions and Economic Development

The groundbreaking paper, "Productivity Losses from Financial Frictions," published in the *American Economic Review* in 2014, revolutionized our understanding of collateral constraints and their long-lasting impacts on macroeconomic steady states.

This research demonstrates that an exclusive focus on steady states may be misleading. The financial frictions, even if small, and even when they disappear over time, can have important implications in the short to medium run.

Another important contribution of this paper is to show that heterogeneity can be handled by a model that is still relatively simple and tractable. That is important, because a major reason for avoiding heterogeneity is precisely one of analytical and quantitative tractability.

Income Inequality Dynamics

Professor Moll's papers, namely "The Dynamics of Inequality" in *Econometrica* (2016), "Income and Wealth Distribution in Macroeconomics: A Continuous-Time Approach" in the *Review of Economic Studies* (2022), and "Uneven Growth: Automation's Impact on

Income and Wealth Inequality" in *Econometrica* (2022), provide a meticulous analysis of income inequality, its dynamics, and broader implications.

The first two papers are methodological. They develop new models to examine the dynamics of inequality and the large impacts it is having on our macroeconomies and societies.

The latter paper studies a new channel through which automation can influence inequality, by affecting the returns to capital. The traditional approach had focused mostly on the returns to labor. The results are important, because a rising return to capital implies that automation can lower real wages even in the long run. This is especially true for workers whose skills are less valuable after automation.

Heterogeneous Agents in New Keynesian Models

Finally, Professor Moll has contributed vitally to the domain of heterogeneous agents within New Keynesian economic models, including his seminal contribution "Monetary Policy According to HANK," published in the *American Economic Review* in 2018, elucidating the important role of heterogeneity in monetary policy.

This paper has significantly changed our view of the channels through which monetary policy affects the macroeconomy.

The usual understanding was that the effects of unanticipated interest rates arise from the (elasticity of) substitution between present and future consumption. However, the data show very little impact of interest rates on consumption.

To understand the evidence, it is important to account for heterogeneity. Many individuals are not saving at all, so changes in the interest rates cannot affect them very much. At the same time, others have very large amounts of wealth, and although their consumption need not change, their portfolios will. So, the direct effects of the policy are small, but the indirect effects can be quite large. At the same time, this implies that the responses of fiscal policy will be central in determining the impact of monetary policy.

These different views of the effects of monetary policy have very important policy implications. For example, under the novel perspective offered by Professor Moll’s work, a sharp and short cut in interest rates may be more beneficial than a long and persistent cut.