

Upon the monetary policy innovation, durable goods sector and non-durable sector response to the same direction.

Conventional sticky price model, however, imply that they move to the opposite direction (lack of co-movement), if either of the sectors sets their price in flexible manner. In fact, many literatures assume that the durable goods prices are flexible.

If so, then the theory predicts the lack of co-movement is so sever, and the effect of monetary policy is dampened nearly to the level of monetary neutrality (Barsky et al (2003, 2007)).

Our model offers one solution to this inconsistency. We depart from the prevalent assumption in the literature that all the sectors face identical cost structure. In stead, we assume that each sector obey the sector-specific cost structure that is consistent with input-output table.

We find that even when durable goods sector is flexible sector, U.S. input-output matrix may work so as to render the co-movement between the sectors. This results in the recovery of monetary non-neutrality.