

# TFP Growth, Monetary Policy, and Inequality in Japan\*

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## Abstract

In this paper, we construct quarterly series of income and consumption inequality indices from the 1980s to 2000s and estimate how they react to a shock to TFP and conventional monetary policy using the local linear projection. Our empirical findings are summarized in the four points. (i) A favorable shock to TFP and to the short-term interest rate both increases income and consumption inequality indices. (ii) Both shocks affect a distribution at the bottom more than that at the top. (iii) For both shocks, “heterogeneous earning channel” seems to play an important. (iv) For both shocks, less than 50% of income inequality is transmitted to consumption inequality. Using a simple dynamic general equilibrium model with heterogeneous agents, we discuss implications of our empirical results to nature of linkage between macroeconomic shocks and idiosyncratic risks and to welfare.

**Keywords:** Income inequality, Consumption inequality, TFP shocks, Monetary policy shocks

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