



BOX I.3:

Annual Conference of the Central Bank of Chile

The XXV Annual Conference of the Central Bank of Chile was held on 21-22 November 2022 and its main subject was the role that heterogeneity of different agents in macroeconomics and its implications for monetary policy. Gianluca Violante (Princeton University) co-organized the event, with the participation of leading international experts in this literature who, together with researchers from the Central Bank of Chile, presented a series of papers prepared for the event. [The opening speech](#), delivered by the Bank's Governor Rosanna Costa, discussed the recent history of the introduction of heterogeneity considerations in macroeconomic modeling, and its implications for central banks in Chile and around the world^{1/}.

Special mention must be made of the participation of 2011 Nobel Laureate for Economics Thomas Sargent. He drew a parallel between the current heterogeneous agents literature and Keynes's classical macroeconomic theory. Sargent argued that Keynes, in his 1924 book "A Tract on Monetary Reform" already outlined his interest in the interaction between macroeconomics, fiscal responsibility, and wealth distribution; and he stressed the importance of maintaining a stable price level.

The economic policy panel, moderated by Central Bank Vice-Governor Pablo Garcia, featured James Bullard, Esther George, and Claudio Borio, respectively Governor of the Federal Reserve Bank of St. Louis and Kansas City, and Manager of the BIS Monetary and Economic Department. James Bullard developed a technical line of argument, similar to the work of McKay and Wolf (2022) presented at the Conference, highlighting that, even when household heterogeneity considerations are built into the analysis, the correct design of monetary policy should not depend on such heterogeneity. Claudio Borio focused on the complex interactions between inflation, recession, and inequality and discussed, for example, that a monetary policy more concentrated on controlling inflation, while it may tend to increase inequality in the short run, tends to reduce it in the medium term through price stabilization and increased growth. At the same time, a monetary policy that aims at maintaining full employment, although in the short term it may reduce income inequality, may tend to deepen wealth inequality in the medium term via increases in asset prices and/or increases in the probability of occurrence of financial crises. Finally, and complementing the presentation of Del Negro et al. (2022), Esther George argued that macroeconomic modeling that incorporates heterogeneity in economic agents can help to better understand inflationary dynamics by providing a more complete picture of wage dynamics across different types of workers or sectors.

The topics discussed at the Conference are particularly relevant in the current context, since the recent crisis caused by the Covid-19 pandemic affected households and businesses in a very heterogeneous way, both in its initial effect and in the policies implemented to mitigate it. A better understanding of the shock transmission and policy mechanisms operating in the economy when heterogeneity considerations are incorporated will certainly result in an improved design of economic policies.

^{1/} All the Conference presentations can be found on the [Bank's website](#) and [YouTube](#).