

Loranth Kaszab

"Rule-of-thumb consumers and labor tax cut policy at the zero lower bound"

Abstract: This paper finds that labor tax cut can be an effective policy tool to mitigate the negative effects of a shock that made the zero lower bound on the nominal interest rate binding if the economy features rule-of-thumb households (besides Ricardian ones) and nominal rigidities in prices and wages. Our results are meant to contribute to the discussion initiated by Eggertsson (2010a) who found labor tax cut policy destabilising under zero nominal interest rate in a New Keynesian economy consisting only Ricardian consumers.