Monetary Transfers in the U.S.: How Efficient are Tax Rebates?

Abstract: Recent debate on the effectiveness of tax rebates has concentrated on the degree in which it can affect economic activity, which depends on the methodology, the state of the economy, and the underlying assumptions. A better approach to assess the effectiveness of these monetary transfers is by comparing this method to alternative policies – like the traditional monetary injections through the financial intermediaries. A limited participation model calibrated to the U.S. economy is used to show that the higher the proportion of the monetary injection channeled through the consumers – instead of banks – leads to a less vigorous recovery of output but softens the detrimental effect on the utility of the representative household from the inherent inflationary pressure. This result is robust to the relative importance of the injection (utilization of resources) and alternative utility functions.