
Banks and the State-Dependent Effects of Monetary Policy

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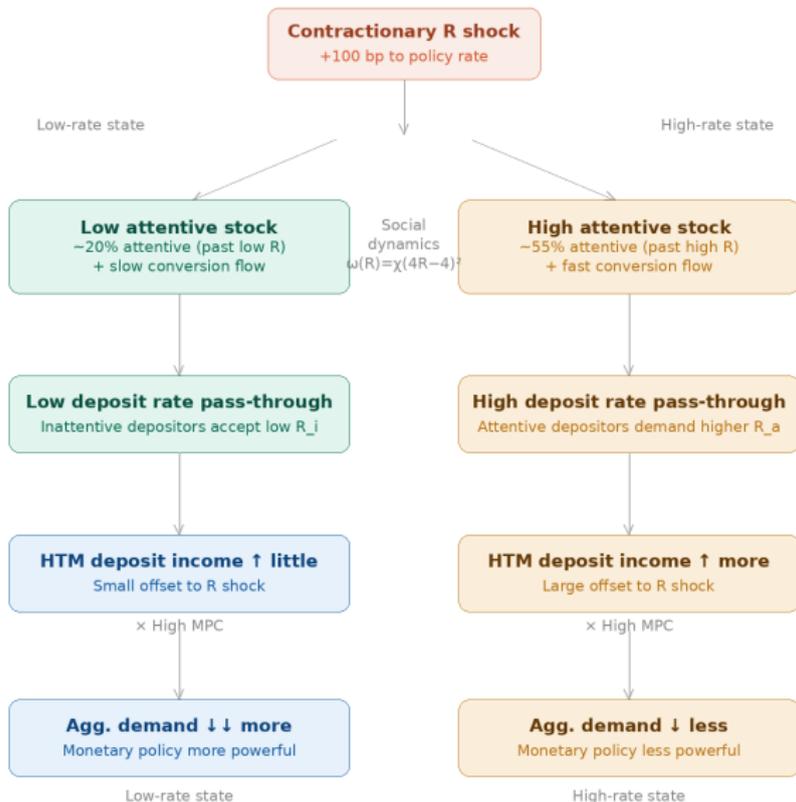
Discussion by Min Fang @ University of Florida

Banks and Monetary Policy Session @ MFA 2026

Summary

- **Question:** Can banks generate interest-rate-dependent effects of monetary policy?
 - Yes, because household attentiveness to deposit rate is interest-rate-dependent
- **Approach:** Empirical analysis + simple PE model + full NK-DSGE model
 - Key components: (1) attentiveness, (2) social dynamics, and (3) high MPC households
- **Main takeaways:**
 - Financial (NIMs) and real variables show reversed/smaller effects when rate is high
 - Switch from inattentive to attentive high MPC households through social dynamics
- **This discussion:**
 - The paper is very comprehensive and clear by itself; points are clearly delivered!
 - Review of the key mechanisms
 - Comments about (1) the two margins (deposit and loan) of NIMs, (2) household attentiveness and social dynamics, (3) connecting attentiveness to MPC

Review of the key mechanisms



Review of the key mechanisms

Very cool ingredients:

- Competitive banks → Does not need bank market power to generate endogenous incomplete passthrough (Drechsler, Savov, and Schnabl, 2017)
- Endogenous state-dependent attentiveness stock + conversion rate → Cannot generate through a simple rational inattention model (Maćkowiak and Wiederholt, 2015)

Very neat empirical/quantification:

- Robust and sophisticated empirical estimation
- Model replication of the empirical results perfectly even in the simple PE model

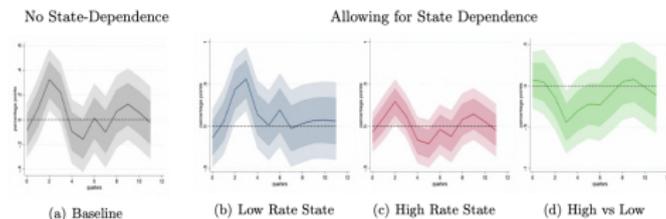
Comment #1: The two margins (deposit and loan) of NIMs

- It is really **only about the deposit rate passthrough**, but **not about NIMs**
- The loan margin is always fixed at 0.008 cost per dollar of making loans in the model
- And in the data, the authors argue that "There is little evidence of state dependence in loan rates" (Page 9 on the local projection results of loan rates).
- We could think of exactly the same situation when rates are high due to social dynamics:
[Loan Margin]: Loan rate pass-through also increases (more attentive borrowers talking around, spread news → refinancing, demanding lower spreads) → **also compresses NIM**
- And I actually think the authors' own empirical results support that!
- This should strengthen the results of the paper

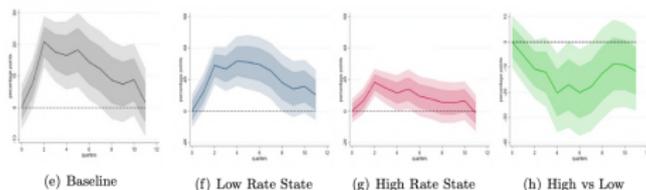
Comment #1: The two margins (deposit and loan) of NIMs

Figure 2: Core NIM Components

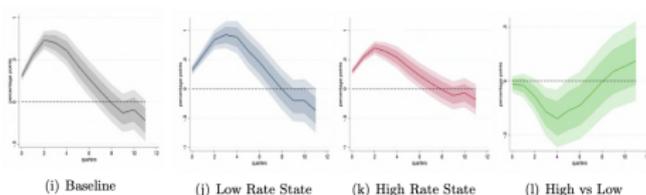
Panel A: Time Deposit Rate minus Saving Deposit Rate



Panel B: Time Deposit Volume over Saving Deposit Volume



Panel C: Loan interest income rate

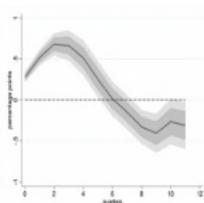


Comment #1: The two margins (deposit and loan) of NIMs

Figure 12: Sample period 1984Q1-2008Q4. Loan interest rate and spread between time and deposit rate.

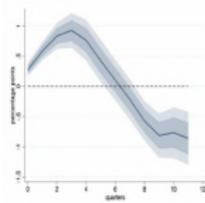
Panel A: Loan Interest Rate

No State-Dependence

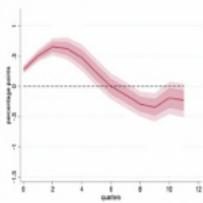


(a) Baseline

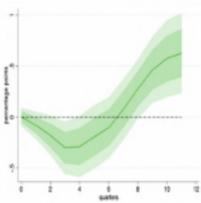
Allowing for State Dependence



(b) Low Rate State

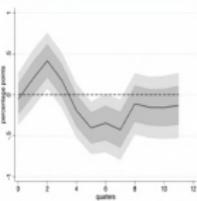


(c) High Rate State

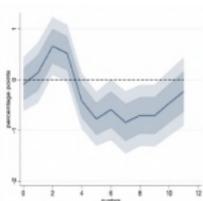


(d) High vs Low

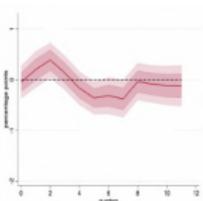
Panel B: Spread between Time and Saving Deposit Rate



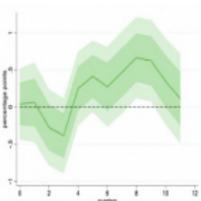
(e) Baseline



(f) Low Rate State



(g) High Rate State



(h) High vs Low

Comment #2: Deposit rate attentiveness and social dynamics

- The social dynamics model is super cool
 1. Endogenous state-dependent attentiveness stock
 2. The fast cascading of attentiveness following shock under high rate is essential
- However, it is a bit hard to map in reality or measure in the data
- The quantification seems to be a bit too frequent: 200 social interactions per quarter
—> households have 2.2 social interactions per day to talk about interest/deposit rate
- How about a rational inattention model with state-dependent information cost c_I :
 - c_I decreasing with R : more newspaper or media coverage lowers the cost
 - c_I decreasing with α : more attentive social environment lowers the cost
- It would be great if we could have more data and evidence of such social dynamics

Comment #3: Connecting deposit rate attentiveness to MPC

- The authors made a "leap" from household attentiveness to household MPC:
"PI HHs are always attentive + HTM HHs switch between attentive and inattentive."
- The setup seems a bit unusual for HTM households in the model?
 1. Model Bayesian estimation has HTM HHs 50% » 35% in Kaplan, Violante, and Weidner (2014)
 2. Model needs HTM HHs to (1) hold enough deposit (a whole quarter of wage), and (2) also receive interest $(R_{jt} - 1)W_t N_{jt}^H$ (then R_{jt} is too high if yearly, but too small if quarterly)
 3. These HTM HHs hold a bit too much liquid asset compared to the data (about \$18, 750)
- Are inattentive households necessarily HTM?
 1. HTM is more of an impatient preference (Aguiar, Bils, and Boar, 2025)
 2. An impatient HTM household, almost by definition, is not going to accumulate deposits; they are inattentive to deposit rates, maybe they have nothing to be attentive about
 3. UK field experiment shows that the population of inattentive depositors is people who have meaningful savings balances sitting in low-yield accounts for years (Adams et al., 2021)
- A tighter connection between attentiveness and MPC would be great for the real effects.

Conclusion

- This paper is a very exciting addition to the state-dependent effects of MP literature:
 1. Clean, well-executed empirical analysis
 2. New, exciting mechanism without bank market power, but attentiveness and social dynamics
 3. Well-executed quantification of the mechanism
- I am looking forward to seeing it get published very well!

Appendix

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