Effects of Monetary Policy, Fiscal Policy, and Health Shocks on Household Outcomes: the Role of Financial Inclusion

A Dissertation

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by

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This dissertation aims at examining the role of financial inclusion as a means by which households in an economy could insulate themselves against the effects of adverse economic shocks. In addition, it evaluates the implications of limited financial market participation for the conduct of monetary and fiscal policies in Sub-Saharan African (SSA) economies and Ghana in particular. Overall, the dissertation covers three empirical chapters (studies).

The first study, designated as chapter 3 of the dissertation, examines the effectiveness of monetary policy and its implications for financially included and excluded households through an estimated New-Keynesian dynamic stochastic general equilibrium (NK-DSGE) model. It exploits time series data spanning 1985Q1-2016Q4 to estimate the model for Ghana, Gabon, Lesotho, and Mauritius through a Bayesian approach. The estimation results show that the share of financially excluded households in those economies is relatively small, usually between 35% and 42%. Additionally, the results show that a contractionary monetary policy tends to have differentiated impacts; it decreases the consumption of financially excluded households more than that of financially included ones. Also, the analysis suggests that a positive monetary policy shock does perform its intended role of significantly reducing inflation and output, despite a sizeable fraction of the population is financially excluded. Generally, although an increase in households who cannot participate in the financial markets reduces the effects of interest rate policies, it finds an opposite result: monetary policy becomes more effective as the fraction of households who participates in the financial markets falls.

Chapter 4 presents the second study where it develops and estimates a standard NK-DSGE model for the Ghanaian economy, for the analysis of the impact of government spending, consumption tax, and labor income tax shocks on household consumption and working hours. It also applies the model to examination of the effects of fiscal policy shocks on key macroeconomic variables in the Ghanaian economy. The model's parameters are estimated through a Bayesian approach using time series data from 1985Q1-2017Q4. Overall, it finds that increased government spending has a positive effect on consumption, output, employment, and inflation but turns to crowd-out consumption when wages are sticky. The results also show that the presence of sticky wage dynamics requires high degree of households who cannot participate in the financial markets in order to generate rather a short-lived positive consumption multiplier of government spending shock. At the disaggregated level, it finds that positive consumption and labor income tax shocks decrease consumption by financially excluded households more than that by financially included ones. The results also show that whereas financially excluded households increase their working hours in order to mitigate the negative effect of those shocks on their consumption, financially included households reduce their working hours to the same effect.

The third study is presented in chapter 5 where it explores the role of financial inclusion in the mitigation of the effects of a health shock at the household level. To that end, it examines empirically the effect of financial inclusion on household working hours and health care utilization, using round six of the Ghana Living Standard Survey data. It finds that a health shock does decrease household working hours and increase the likelihood of health care utilization. However, it finds that, faced with a health shock, households who are financially excluded see their working hours decrease more than those who enjoy full financial inclusion. Also, financial inclusion increases the likelihood of health care utilization when households experience a health shock. It finds evidence that loan acquisition is one of the main mechanisms by which households can insure themselves against a health shock