

Macroeconomic policy during COVID-19

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Abstract

The coronavirus pandemic can already be considered as one of the major humanitarian and economic disasters happened for the last hundred years. The consequences of the crisis are numerous starting from psychological effects and ending, with significant economic recession. This paper investigates the economic side of pandemic by constructing a DSGE model for closed economy and incorporating health block into it. We explicitly model the reproduction rate without using a SIR model. As a result, we get endogenously determined supply and demand sides of the pandemic in the model. We do different policy experiments to understand the best policies during this shock and show that sector specific policies can bring better results compared to aggregate macroeconomic policies.

Further, we introduce uncertainty into the model and show that if agents have partial information about the spread of virus, the policy should be stricter to achieve similar results of the full information case.

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