

# MICHAEL DROSTE

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# HARVARD UNIVERSITY

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## Education

### Harvard University

Ph.D., Economics, 2018 to 2024 (expected)  
A.M., Economics, 2021

### Swarthmore College

B.A., Economics and Mathematics, 2014

## Research Fields

Macroeconomics (primary), Public finance (secondary)

## References

Gabriel Chodorow-Reich  
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Xavier Gabaix  
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Ludwig Straub  
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## Fellowships & Awards

Harvard GSAS Excellence in Teaching Recognition (Spring 2019, Fall 2020, Spring 2021, Spring 2022, Fall 2022, Spring 2023)

## Teaching Experience

Economics 2450A, Harvard University, Teaching Fellow for Stefanie Stantcheva (Fall 2022)  
Economics 1011B, Harvard University, Teaching Fellow for Gabriel Chodorow-Reich and Ludwig Straub (Spring 2023), Paul Willen (Spring 2022), Gabriel Chodorow-Reich (Spring 2021)  
Economics 1010B, Harvard University, Teaching Fellow for Thomas Baranga (Fall 2020)  
Economics 1152, Harvard University, Teaching Fellow for Raj Chetty (Spring 2019)

## Research Assistance

Research Assistant, Harvard University, James H. Stock and Emmanuel Farhi, 2020-2021  
Research Assistant, Stanford Institute for Economic Policy Research, Raj Chetty, Nathan Hendren, and John Friedman, 2016-2018  
Research Assistant, Federal Reserve Board, Advanced Foreign Economies, 2014-2016

## Job Market Paper

### Strategic Complementarities in Posted Wages

Imperfectly competitive labor markets often exhibit strategic complementarity in wages: wage-setting decisions depend positively on other agents' wage-setting decisions. How important is this effect for macroeconomic dynamics? I develop a reduced-form empirical design to estimate the magnitude of strategic complementarity in posted wages using the near-universe of online job postings from 2010 to 2023. My design leverages spatial variation in exposure to national wage-setters, firms that do not vary posted wages across local labor markets, as a source of differential exposure to aggregate shocks. My preferred estimates indicate a modest degree of complementarity in posted wages: posted wages increase by 0.10% in response to a 1% increase in competitors' wages. I assess the quantitative relevance of these results through the lens of a New Keynesian model with monopsonistic labor markets. Wage complementarities are a powerful source of real rigidity in this model; however, my empirical evidence suggests that the impact of this channel on the propagation of macroeconomic shocks is limited. My results suggest that strategic complementarity in wages is weaker than is often assumed, and provide an important "portable moment" to discipline and evaluate models with imperfectly competitive labor markets.

## Publications

### **Unbundling Quantitative Easing: Taking a Cue from Treasury Auctions**

(with Yuriy Gorodnichenko and Walker Ray)

Forthcoming, *Journal of Political Economy*

This paper studies the role of preferred habitat in explaining the effectiveness of the Federal Reserve's quantitative easing (QE) programs. Using high-frequency identification and exploiting the structure of the primary market for U.S. Treasuries, we isolate demand shocks that are transmitted solely through preferred habitat channels, but otherwise mimic QE shocks. We document large "localized" yield curve effects when financial markets are disrupted. Our calibrated model, which embeds a preferred habitat model in a standard New Keynesian framework, can largely account for the observed financial effects of QE. We find that QE is modestly stimulative for output and inflation, but alternative policy designs can generate stronger effects.

### **Policies for Electrifying the Light-Duty Vehicle Fleet in the United States**

(with Cassandra Cole, Christopher Knittel, Shanjun Li, and James H. Stock)

*American Economic Association: Papers & Proceedings* 113: 316-322

Decarbonization of light-duty vehicles (LDVs) in the United States is an important policy priority. We investigate the roles of the Infrastructure Investment and Jobs Act and the Inflation Reduction Act in accelerating the transition of LDVs to electric vehicles. We additionally consider alternate allocations of government funds for subsidized construction of charging stations and refundable tax credits for electric vehicles. We find that charging station subsidies are extremely effective as measured by impact for a given fiscal expenditure. All of the policies that we consider have estimated costs below the most recent estimate of the social cost of carbon.

### **Adapting to the COVID-19 Pandemic**

(with James H. Stock)

*American Economic Association: Papers & Proceedings* 111: 351-355

From early in the COVID-19 pandemic, economists have stressed the importance of individuals endogenously changing their behavior to reduce their risk of infection. This paper quantifies time variation in the endogenous behavioral response of economic activity to the prevalence of the virus using an estimated behavioral SIR model with time-varying parameters. We find significant variation in both the relationship between economic activity and viral prevalence and the relationship between transmissibility and economic activity. This variation reflects adaptation to the pandemic and has implications both for specification of behavioral SIR models and for the next stage of the pandemic.

## Papers in Progress

### **The Static, Dynamic, and Distributional Effects of State Business Tax Cuts**

(with Drew Burd, Owen Zidar, and Eric Zwick)

This paper estimates the static, dynamic, and distributional effects of the 2013 Kansas tax reform. We compare the outcomes of pass-through firms in Kansas, which experienced a historic state tax elimination in 2013, to those of similar firms in other states and to non-treated C-corporations in Kansas and in other states. Our work uses U.S. treasury data to present two main findings. First, the mechanical effects of these tax cuts, which amounted to an average of \$24,695 for those in the top 1 to 0.1% and \$215,080 for those in the top 0.1%, reduced state income tax revenue by 1/3 and increased inequality in after-tax income in Kansas. Second, despite these large tax cuts, we find no evidence that the Kansas tax reform induced growth in wages, employment, sales, pre-tax profits, or investment at both the firm and state levels. Thus, in this "real live experiment" of large business tax cuts, the mechanical effects were much larger than dynamic growth effects.

## Academic Service

Referee: *American Economic Review*, *Quarterly Journal of Economics*, *American Economic Journal: Economic Policy*, *Journal of Economic Theory*