

DISCUSSION

Expectations, Asset Prices and Monetary Policy: the Role of Learning Simon Gilchrist and Masashi Saito

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2/11/2006

Focus

Narrowing down:

- ▶ Asset Prices: Equity prices.

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- ▶ Credit Frictions: at Firms Level.
- ▶ No (direct) wealth effect on consumption.

What Distortions?

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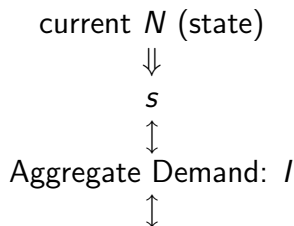


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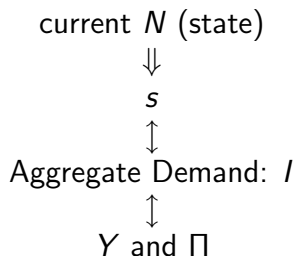
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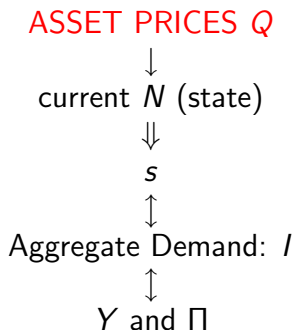
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Mechanism underlying Financial Accelerator - GL02-FM

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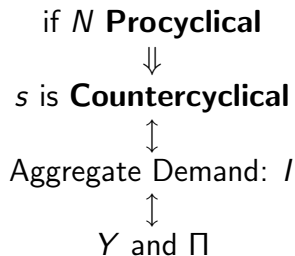
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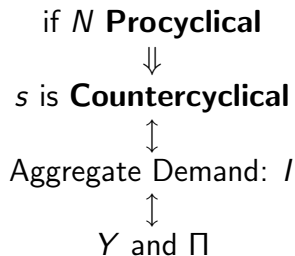
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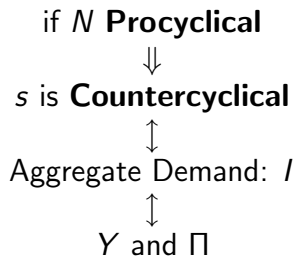


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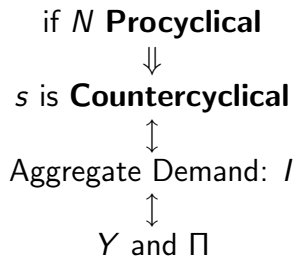
ASSET PRICES Q

Mechanism underlying Financial Accelerator - GL02-FM



ASSET PRICES Q
positive relation (unexpected movements...)

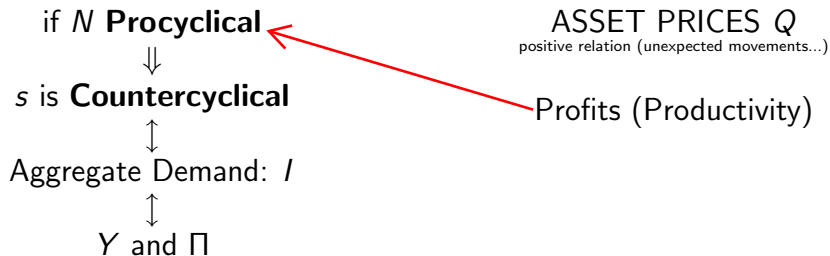
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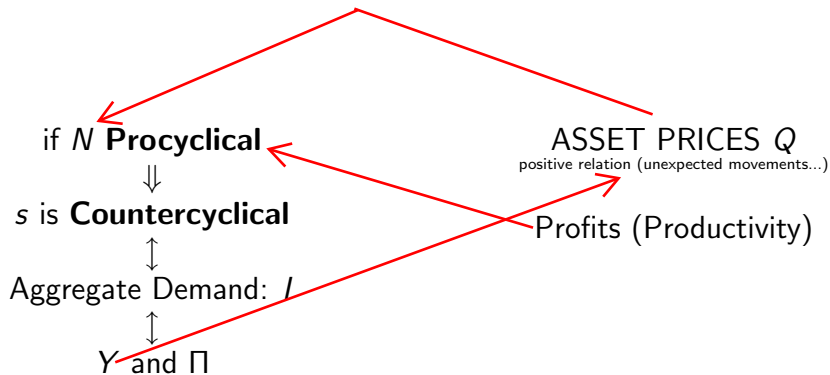
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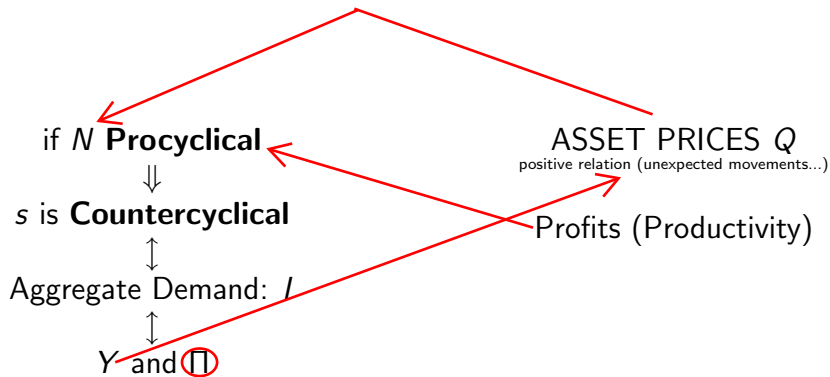
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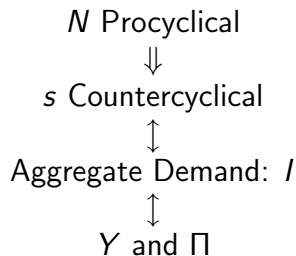
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Aggregate Demand: I
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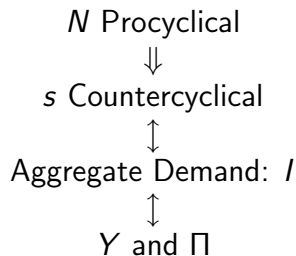
Mechanism underlying Financial Accelerator - BG01



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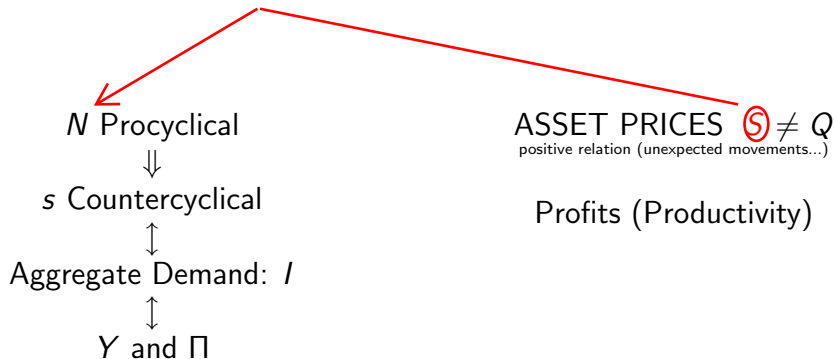
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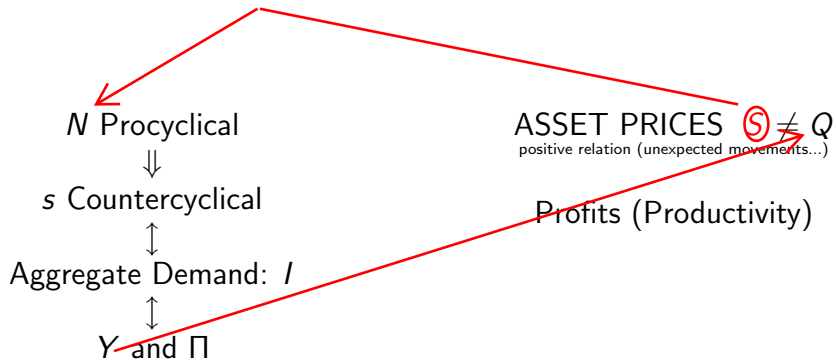
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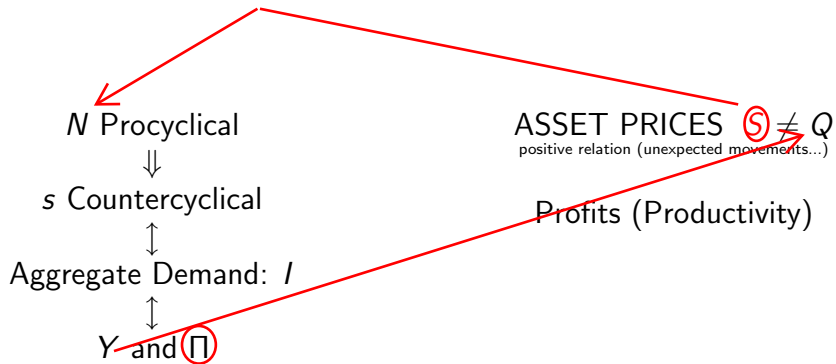
Mechanism underlying Financial Accelerator - BG02



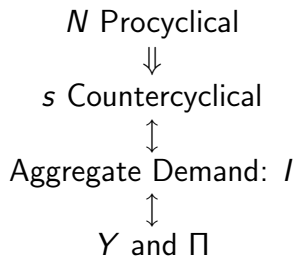
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Mechanism underlying Financial Accelerator - BG, Cecch et al. ...

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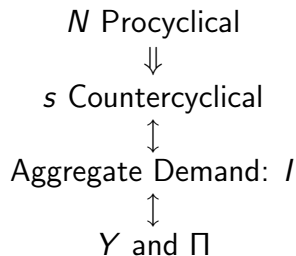
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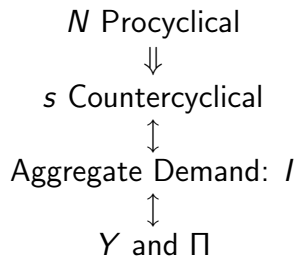
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- ▶ Present Paper: Expectations for some periods systematically wrong

Mechanism underlying Financial Accelerator - BG02



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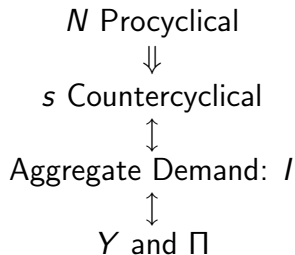
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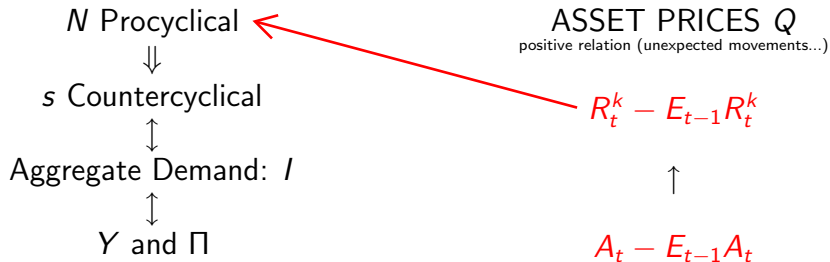
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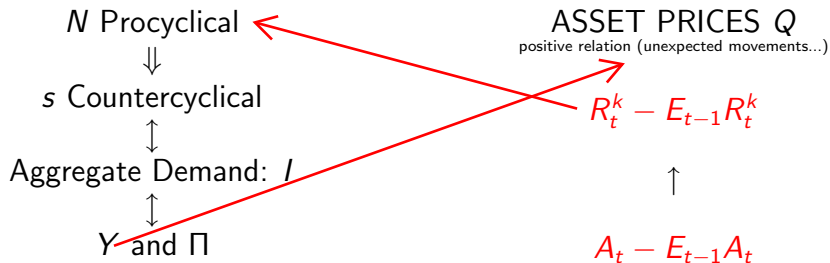
↑

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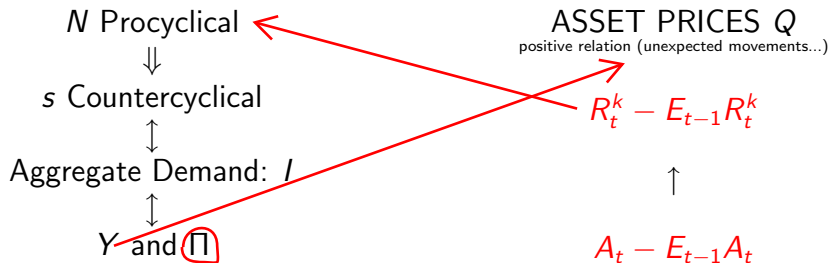
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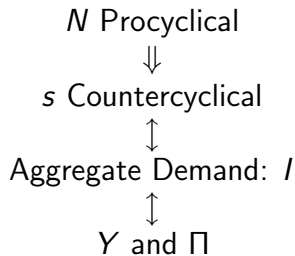
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learning instead of bubbles

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No substantial difference from having baseline setup (GL02)
exogenous bubble (BG01)
and learning.

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No "Monotonic" Trade-off between Inflation and Financial Distortions
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 $\ln R_{t+1}^n = \ln R^n + 2.0 \ln \pi_t + \phi_Q (\ln Q_t - \ln Q_t^*)$

	No Financial Accelerator			Financial Accelerator		
	$var(\text{Y gap})$	$var(\ln \pi)$	Loss	$var(\text{Y gap})$	$var(\ln \pi)$	Loss
<i>Full Information for the Policy Maker</i>						
$\phi_Q = 0.1$	1.02	1.00	1.00	1.09	1.00	1.04
$\phi_Q = 0.5$	1.12	0.99	1.01	1.36	1.00	1.14
$\phi_Q = 1.0$	1.12	0.99	1.01	1.50	0.98	1.18
$\phi_Q = 1.5$	1.06	0.99	1.00	1.51	0.93	1.16
$\phi_Q = 2.0$	0.97	0.99	0.99	1.53	0.86	1.12
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$\phi_Q = 0.1$	0.92	1.00	0.98	1.20	1.01	1.08
$\phi_Q = 0.5$	0.94	1.00	0.99	1.22	1.01	1.09
$\phi_Q = 1.0$	0.96	1.00	0.99	1.38	0.97	1.12
$\phi_Q = 1.5$	0.98	1.00	1.00	1.44	0.93	1.12
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Notes:

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- ▶ capital gain tax?
- ▶ Steady state distorted: incentive to stimulate economy (how big SS-distortion?)

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- ▶ Knightian uncertainty. Acting pre-emptively against worst scenario (Tetlow05)