Comments to Alessando Notarpietro: "Credit Frictions and Household debt..."

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A summary of the paper (1)

The research question

"The main objective is an evaluation of the relative importance of financial markets liberalization and changes in the conduct of monetary policy in explaining the reduced volatility of nondurable consumption, residential investment and household debt [over the last 30 years or so]."

The method

Build a DSGE model with household debt and a collateral constraint on the hh problem, estimate the model with before 1982 data (before financial liberalization), change the collateral constraint, and simulate the model.

Estimate the model separately for the two subperiods and compare the results.

Compare to a benchmark model without household debt.

A summary of the paper (2)

Results 1

Housing preference shocks are very important after 1982. Monetary policy contributed less after 1982. All shocks are smaller after 1982...

Results 2

The financial market liberalization decreases the contribution of monetary policy shocks (by 10%) and increases the role of preference shocks.

Results 3

A model with household debt and a collateral constraint performs better than the standard model.

About the (complete) model (1)

There are two types of hhs. A patient and an impatient one.

In the long-run, in a SS, the borrowing constraint is binding for the impatient type but not for the patient type. Dynamics are analyzed around such a SS.

The LTV ratio (for the impatient hh) changes one-to-one with exogenous shocks to the collateral constraint.

Does it make sense to have exogenous shocks to the collateral constraint at a business cycle frequency?

About the model (2)

I wonder why you assume that the patient hh does not work at all.

In the model, all workers are borrowing constrained. In reality, only a fraction of workers are borrowing constrained.

About the analysis (1)

I am not sure I understand the logic behind the subsample estimation. Why would preferences change with financial liberalization?

The Garn-St. Germain Act at 1982 was an "exogenous" shock to the collateral constraint. Given that your model features this kind of exogenous shocks, why do you split the data?

Given that you have exogenous shocks to the collateral constraint, it is perhaps not at all surprising that the extended model perfors better than the standard one.

About the analysis (2)

I find the simulation exercise far more interesting.

However, it is not clear why lowering the collateral requirement should change much. It would be nice to understand why it has the effects that it does.

What about changes in the share of impatient households?