Discussion on "Macroeconomic Effects of Banking Sector Losses across Structural Models"

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BIS, Mexico City, January 2015

Brief Summary

- Very interesting paper!
- It examines 5 models of financial intermediation. Authors studies and compare, across the various models, the macro implications of capital shorfall in the financial intermediation sector.
- Shock is a transfer shock from banking sector to household sector. (redistributive shock)
- Shock is calibrated similarly across the models.
- Common role of banks as liquidity providers.

Brief Summary

- Mains results:

    1. Details of financial intermediation matter for assessing the macro impact of shocks (how recapitalization is financed).
    2. The consequences of the shock on the credit market depends on the interaction between different agents in the model.

- Comparison of model impulse response with VAR impulse response.

- Motivation
- Brief review of the models (maybe not that different?)
- Suggestions

Motivation

- Why is it interesting to examine a variety of models?
- Financial frictions and financial intermediation central in post crisis modelling.
- Important exercise is to compare their performances to provide policy guidance.

Key features of the models

- Model 1 (Iacoviello).
- Entrepreneurs, banks, two types of households (patient and impatient).
- Two types of financial frictions: entrepreneurs and banks. (both faces borrowing constraints)
- Amplification through asset price at the entrepreneur level.
- Pecuniary externality arise at entrepreneur level.

- Model 2 (Covas and Driscoll)
- Entrepreneurs, workers, banks.
- Heterogeneous entrepreneur and heterogeneous workers face borrowing constraints. Banks faces capital requirements constraint.
- No amplifications through constraints.

- Model 3 (Kiley and Sim)
- Households and banks.
- Banks manage financial project and face financial frictions
- Pecuniary externality on the banking side.

Key features of the models:

- Model 4 (Queralto)
- Model follow Gertler, Kiyotaki and Queralto: entrepreneurs, banks and workers.
- Agency problem generates financial frictions between depositors and banks.
- Incentive constraint similar to borrowing constraint. with price of producers' equity in it. (pecuniary externality).
- Fraction of assets that can be diverted is endogenous.

Key features of the models:

- Model 5 (Guerrieri and Jaha-Parvar)
- Similar to model 4 with two types of firms. (equity financing versus bank intermediation)
- Nominal rigidities and role for monetary policy.
- Financial frictions comes from incentive constraints of banks.
- Examine response to the shock at the zero lower bound.

Suggestions:

- Suggestions
  1. Calibration/how to do meta-model analysis?
  2. Key features of the models
  3. Extensions and policy relevant issue
  4. What is missing?

Suggestions

- Calibration:
- Key aspect that is common across models is the calibration of the transfer shock.
- More generally: What is the benchmark here?
    1. one way could be to choose common parameters across models as much as possible.
    2. calibrate the models to match key feature of the US economy in a business cycle fashion.

Suggestions

- Key features of the model:
- Key aspect the central role of financial intermediation.
- Some models adds elements that could be skipped at first pass just to focus on the differences between the varieties of financial frictions.

  1. Model 3 and 5 have nominal rigidities.
  2. Specification of utility function could be made homogenous across models.
  3. Role of nonlinearities: model 2 allows for occasionally binding constraint (Guerrieri and Iacoviello method for solving these class of models)

Suggestions

- Extensions and policy relevant issues.
- Nominal aspect could be added to all models.
- To what extent financial shock push the economy toward zero lower bound.
- Normative analysis: what are the distortions that emerge from the different modelling of financial intermediaries?

Suggestions

- What is missing?
- Nonlinearities: except model 2 and 5. (important for distinguishing between normal and crisis times)
- Cost of crisis: quantitatively scope for policy intervention seems limited.
  - model of endogenous growth and permanent effects of crises
  - zero lower bound limit policy options.

Conclusions

- Relevant paper: more analysis along these lines.
- Facilitate the comparison across models by limiting differences to financial frictions.
- Future work: normative comparison.