Discussion:
Asset-price boom-bust cycle and credit: what is the scope of macro-prudential regulation?

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The purpose of this paper

- “Recent financial crisis triggered policy initiatives”
- But most intend to “address” the crisis…
- A more challenging question: Is it possible to “avoid” asset-price bubbles?
  - Why might that be possible?
    - Current financial crisis caused by housing bubble
      - Financial deregulation
      - Financial innovation on securitization
      - The motivation system in financial industry
      - Corporate control
      - Supervision imbalance between individual institutions and systematic link
      - Accommodate monetary policies

The authors have attempted to answer

- Is it possible to detect asset-price boom?
- What is the probability that a boom becomes a bust?
- Can we distinguish good booms from bad booms?
- What are the determinants for asset-price booms?
- What is the scope of macro-prudential regulation?
- If the CBs are involved, can we draw a line between monetary and financial stability objectives?

Can we detect asset-price boom?

- Tools to detect booms and busts
  - Hodrick-Prescott method
  - Extended Hodrick-Prescott method
  - Recursive Hodrick-Prescott method
  - Band-pass filter method
  - Moving average method
- The test results by different tools are “huge”, and is not because of parameter and/or threshold value. But…
- Table2 shows the housing price booms and busts are more consistently identified than those for stock prices.
- Figure 5 and 6 shows the stock prices are likely influenced by a common factor than do house prices.

The probability that a boom leads to a bust

- About 50% of asset-price booms will lead to busts.

- A boom has about 40% to 80% chances to turn into a “costly” bust.

- Based on the results, designing macro-prudential rules may not be “panacea”

- Now questions change to: To distinguish warning indicators signaling costly boom

Is there a smoking gun?

- The usual suspects of 19 indicators including macro-economic, credit and money, and global variables are collected.
- A non-parametric analysis, Kruskall-Wallis test, is applied.
- Results: economic activities and credit variables are more powerful than IR to explain costly asset-price booms.

The determinants of costly booms

- The real long-term IR and above trend stock price are positively related to costly house price boom

- Bu tit is more difficult to identify explanatory variable(s) for costly stock price boom.

The paper’s results:

- House-price booms and busts are more consistently identified than stock prices.
- Stock-price booms and busts are short-lived and less costly. But it is opposite for house-price cycle.
- Stock-price cycle shows global effect but house-price cycle is more related to local economy.
- It is difficult to pin down the main determinants

The authors’ policy recommendations

- The task to ex ante identify bubble remains challenging.
- Treat asset classes differently.
- Authorities should pay attention to costly booms only.
- Tools in central banks may not serve the purpose of macro-prudential policies.

What I like this paper

- A hot question in the market!
- A top-down, reduced-form approach to address this question
- International perspective, 18 OECD countries
- Some of the findings
  – Consistent signals for about 50% + stock and housing booms
  – Global stock and global housing markets are different
  – Costly stock and housing busts have different impacts on the real economy.
  – Costly busts deserve more attention
  – Treat asset classes differently
  – The different targets for monetary and macro-prudential policies

Some comments

- It seems to me the project is a little bit ambitious given the available data;
- Might want to focus on either stock or housing busts;
- Data in time series are long enough for in-sample and out-of-sample tests.
- Endogeneity concern;
- Overall, this is an interesting work, and keep on working!