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# The Risk Channel of Unconventional Monetary Policy

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The views expressed in this discussion represent my personal opinion and do not necessarily reflect the views of the Deutsche Bundesbank or its staff.

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- **Interesting paper, easy to read, some new insights**
  - Motivation: unconventional monetary policy affects risk sharing and the pricing of risky assets
  - Key idea: introduce additional player (central bank) buying risky assets according to some fixed strategy into an otherwise standard heterogeneous agent asset pricing model
  - Results
    - UMP reduces risk premia and price volatility
    - UMP stabilizes growth (higher in bad, lower in good times)
    - Commitment to exit UMP early reduces risk premia further
    - Negative tail events in asset returns become less likely
- ⇒ Generally positive assessment of UMP, largely stabilizes, smoothes out dynamics of the economy

- 1 Model setup
- 2 Comment #1: evidence for the channel you propose
- 3 Comment #2: the role of monetary policy
- 4 Comment #3: financial stability
- 5 Minor comments

- **Standard equilibrium production economy setup . . .**
    - $Y_t = AK_t$ , constant TFP
    - capital accumulation subject to convex adjustment costs
    - firms maximize expected discounted value of dividends
    - agents maximize utility from lifetime consumption
    - market is complete (in particular: no role for corporate debt)
  - **. . . with a few extra features** (but hardly any frictions)
    - three agents (private investors, banks, savers) + central bank
    - limited participation: savers don't optimize anything, receive transfers from central bank, don't hold stocks
    - heterogeneous risk aversion: private investors more risk averse than banks, but same EIS
    - central bank invests in firm equity according to some exogenous policy rule, dependent on aggregate state
- ⇒ two state variables (instead of one)
- $x$  = share of private wealth held by banks
  - $w$  = share of total wealth held by CB

- ⇒ Standard multiple agent economy with exogenous time variation in supply of risky assets?  
(theoretical contribution, has this been studied before?)
- CB stabilizes risk premia and growth in bad times (at the cost of lower growth in good times)
  - Central bank acts through affecting the supply of risky assets (asset purchases reduce the supply)
  - Central bank acts mainly in times when demand for risky assets is low (by rule)
- Banks have lower leverage if central bank exists, combination of two effects
  - CB policy reduces banks' motive to hedge against time-varying risk premia → increases bank leverage
  - CB purchases mainly from banks (not private investors) → decreases bank leverage
- Since agents have PERU, CB's exit strategies affect the results

## Is your risk channel economically relevant?

- Do you have any empirical numbers available?
- Can you quantify your effects?
- Sounds like a cheap comment, but...
  - UMP affects the economy through many channels
  - macro channels: UMP may affect investment, output, labor, inflation target, ...
  - micro channels: which assets does the CB purchase? Market microstructure, scarcity, depth of repo markets, liquidity, etc.?
  - potentially many other channels (see conference program!)
  - how important is your channel (supply of risky assets) compared to other prominent ones?
- ... and it's not easy because your model is very stylized
- **Related questions**
  - Is the major goal of the CB to reduce risk premia?
  - Is the CB policy rule realistic? (buy assets only when banks are undercapitalized)

## Why is there monetary policy in the first place?

- Does it make sense to analyze MP in a model without any motivation for its existence?
- ⇒ What is the goal of the CB in your model?
  - Stabilize undercapitalized banks?
  - Reduce asset price volatility?
  - Redistribute money to the poor?
  - Execute/replace fiscal policy?
  - *Bring inflation back to the target?*
- What is the role of conventional monetary policy?
- Differences between conventional and unconventional MP?
- CB basically invests in risky assets and distributes the profits among the poor ⇒ Households profit from UMP?  
⇒ Should it be called “redistribution channel” of MP?
- Isn't this closer to fiscal policy?  
(some say that at the ZLB monetary policy is fiscal policy...)

### **Your statements about financial stability are very bold**

- Financial stability is more than just avoiding large drops in asset prices
  - No distinction between debt and equity (complete markets)
  - No frictions, no asymmetric information, perfect liquidity etc.
  - Can intermediaries default?
- ⇒ Are there any externalities from large drops in asset prices?



- Is the complete market setting appropriate where there is no difference between debt and equity?
- Is there a role for corporate bonds?
- The term “balance sheet” in your paper is sometimes misleading
- Skip footnote 21, too sloppy
- Your calibration needs more discussion (since you don't estimate anything), e.g. the amount of savers is pretty small and their risk aversion is pretty high
- Forget about the “fire sale” story, this is not in your model

- Who issues the assets that the CB purchases? Where is the government?
  - What if CB profits were just wasted? How would your results change?
  - Third market clearing condition (Definition 1): Perhaps give two sentences of economic interpretation?
  - Welfare implications for non-participating households?
    - movements in real risk-free rate?
    - transfers/redistribution
- ⇒ may be at odds with “public opinion” on UMP

- **Interesting paper**
- Paper uncovers a potentially relevant channel of unconventional monetary policy
- Stylized model → theoretically appealing
- Reminds me of Drechsler Savov Schnabl (JF 2016) and so it's subject to the same challenges
  - be more quantitative, put numbers on your main effects
  - be less bold in your interpretation
  - embed your mechanism into a broader model?

**Exogenous variation in supply of risky assets affects returns  
... but the model implications need to be validated**

**Good luck with the paper!**