Discussion of "Credit Booms, Financial Crises and Macroprudential Policy" by Mark Gertler, Nobuhiro Kiyotaki and Andrea Prestipino

Alejandro Van der Ghote

European Central Bank

December 2018

European Central Bank workshop
Monetary Policy and Financial Stability

The views expressed on this discussion are my own and do not necessarily reflect those of the European Central Bank

This paper

What it does

1. Develop macro model of banking panics and boom-bust cycles

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2. Study macroprudential regulation in that model

   (state-contigent leverage requirements for banks)

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→ Shocks to fundamentals + Failure to roll over debt + ...

... + Self-fulfilling beliefs + Sunspots

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Boom-bust cycles   NEW !!!

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- Optimism → ↑ (Perceived) Tobin's Q & Banks' borrowing capacity

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Main results

1. Banking panics $\longrightarrow$ Bank runs & Amplification effects

2. Banking panics + News-driven optimism $\longrightarrow$ $\uparrow$ Amplification effects
   Boom-bust cycles

3. Optimal regulation $\longrightarrow$ Macroprudential requirement binds when banks' net worth attains intermediate values

My comments

#1: News-driven optimism & Boom-bust cycles

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A: Not sure! Let's look at a continuous-time version of that economy...

#1: News-driven optimism & Boom-bust cycles

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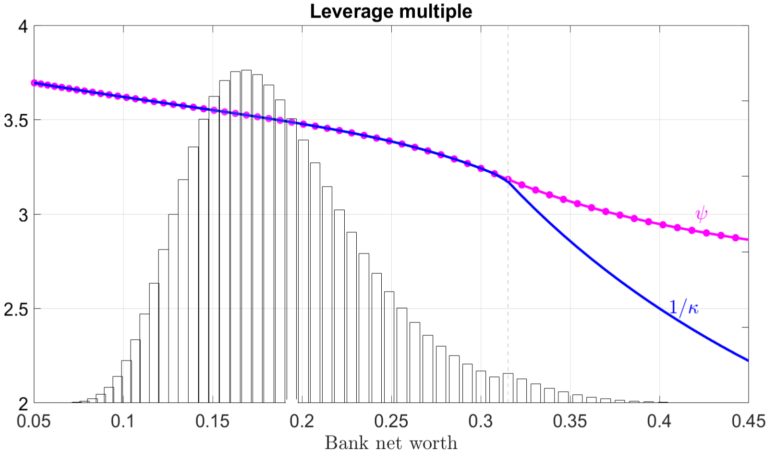

$\longrightarrow$ based on Van der Ghote (2016)

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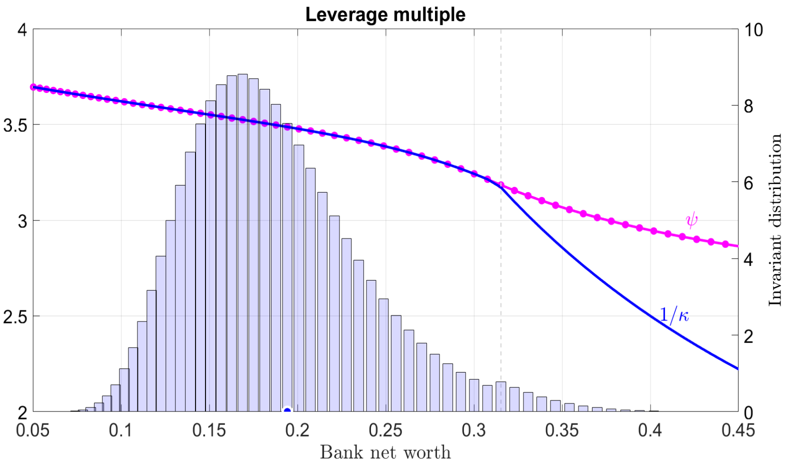

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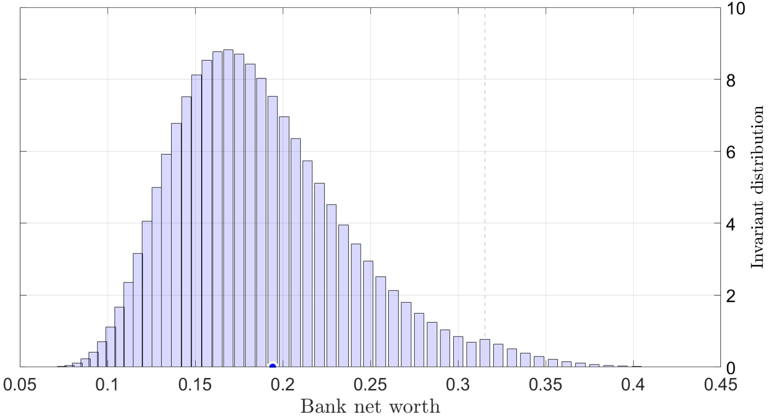

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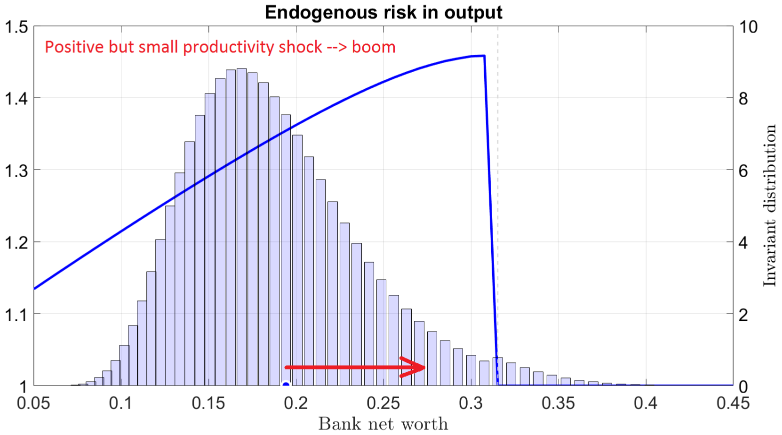

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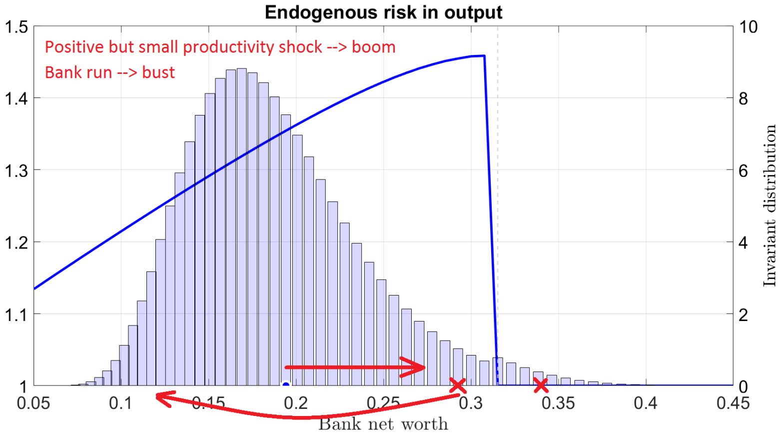

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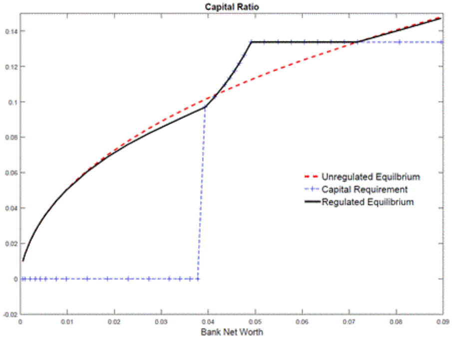
#1: News-driven optimism & Boom-bust cycles

Takeaways

- $\longrightarrow$ News-driven optimism does not seem necessary to generate boom-bust cycles
- $\longrightarrow$ News shocks and/or bank's optimism just amplify those cycles
- $\longrightarrow$ If willing to stick with news-driven optimism, it would be useful to provide further empirical justification!

#2: Optimal macroprudential intervention

This paper



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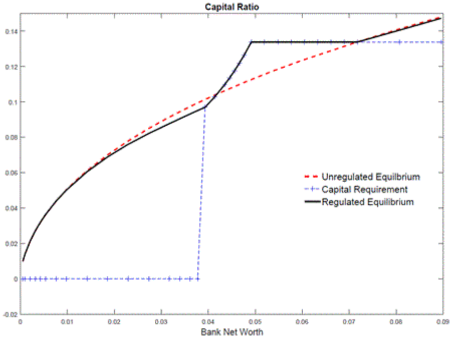

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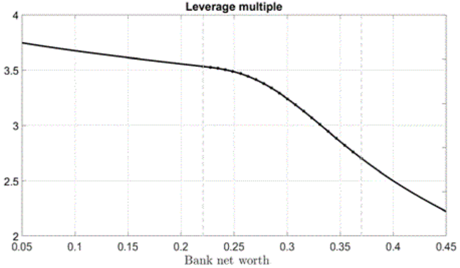

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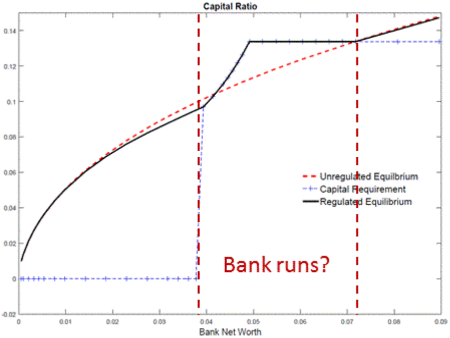

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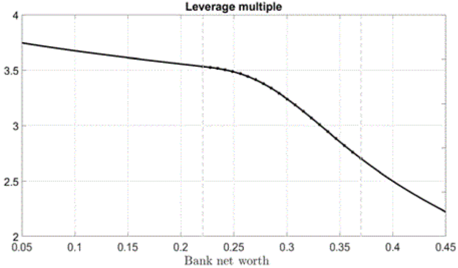

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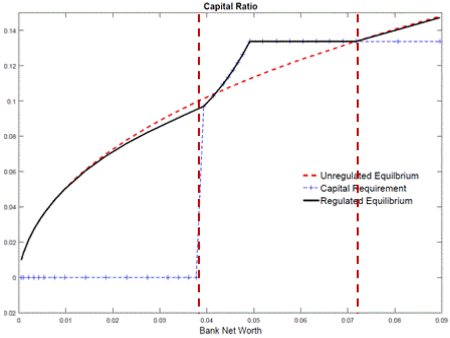

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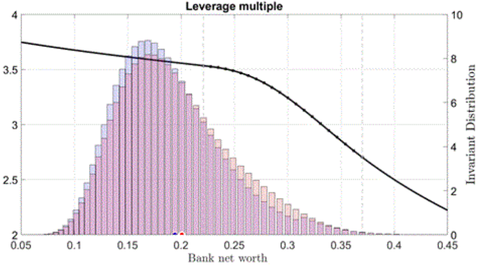

#2: Optimal macroprudential intervention

Questions to addressed

On determinants of optimal macroprudential interventions

$\longrightarrow$ What determines region in which macroprudential leverage requirements become binding?
Does probability of bank run matter?

Why does not binding status of IC constraint matter?

On effects of macroprudential policy

$\longrightarrow$ What is the effect of macroprudential leverage requirements on frequency and intensity of bank runs?
And on amplitude and duration of boom-bust cycles?

#3: Interactions with monetary policy

EUROPEAN CENTRAL BANK

EUROSYSTEM

RTF Day-After Workshop

$\boxed{\text{Monetary Policy}}$, **MacroPrudential Policy and Financial Stability**

19 December 2018 (9:30-14:30)

C2.01, Main Building

#3: Interactions with monetary policy

Questions for further research...

→ What is the effect of monetary policy on probability and intensity of bank runs?
And on amplitude and duration of boom-bust cycles?

→ Should monetary policy clean, lean or not respond to financial stability concerns?

Conclusion

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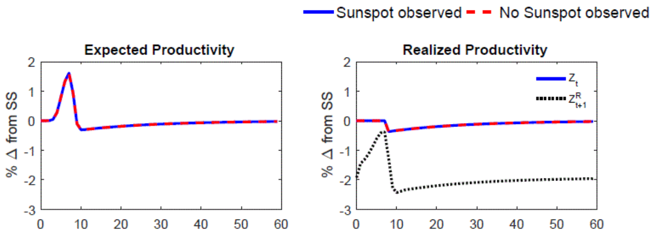
Very interesting paper! Highly recommended

Banking panics + News-driven optimism



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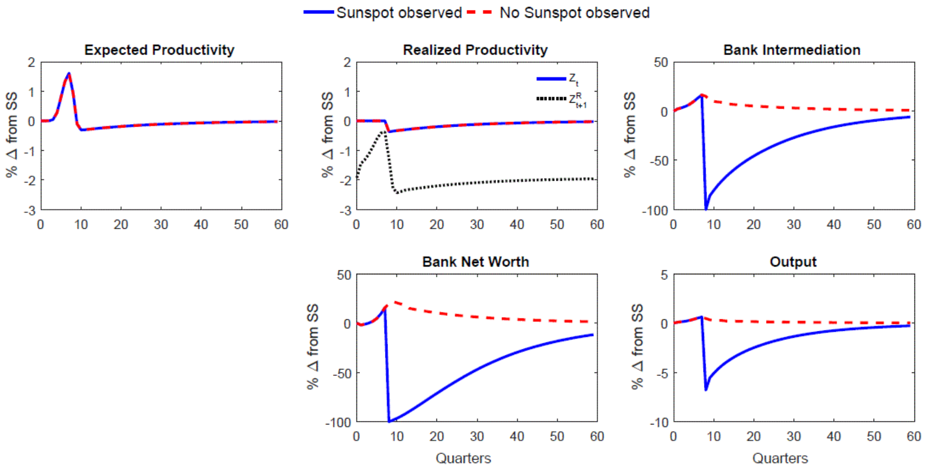
Banking panics + News-driven optimism



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