

Comments on “Overborrowing, Financial Crises and ‘Macro-prudential’ Policy” by Javier Bianchi and Enrique G. Mendoza

John H. Cochrane

University of Chicago

The paper

$$y_t = \varepsilon_t F(k_t, h_t)$$

Assets: $k_t = \bar{K}$; b international

$$\text{Collateral constraint: } -\frac{b_{t+1}}{R} + \theta w_t h_t \leq \kappa q_t k_{t+1} \quad (\mu_t)$$

First order conditions

$$\text{Labor : } \varepsilon_t F_h(t) = w_t [1 + \theta \mu_t / u'(t)]$$

$$\text{Bonds : } u'(t) = \beta RE_t u'(t+1) + \mu_t$$

$$\text{Capital : } u'(t) - \mu_t \kappa = \beta E_t \left[u'(t+1) \left(\frac{\varepsilon_{t+1} F_k(t+1) + q_{t+1}}{q_t} \right) \right]$$

Benevolent regulator

$$\max_{\{B_t, c, h\}} \dots s.t. \frac{-B_{t+1}}{R} + \theta w(B_t, \varepsilon_t) h \leq \kappa q(B_t, \varepsilon_t) \bar{K};$$

$$u'(t) = \beta RE_t [u'(t+1) + \mu_{t+1} \psi_{t+1}] + \mu_t$$

$$\psi_{t+1} = \kappa \bar{K} \frac{\partial q_{t+1}}{\partial b_{t+1}} - \theta h_{t+1} \frac{\partial w_{t+1}}{\partial b_{t+1}}$$

- What happened? Crisis? Recession? (Graph)
- Central ingredient? Collateral? Intermediaries? Run?
- Frictions. Why don't people fix them? Why don't we fix them?
- “Macro-prudential” (Hayeks' nightmare) Fix current policy first?
- Take papers seriously
- The Chat: “Overborrowing” “Macro-Prudential” “Fire sales” “Fisherian debt-deflation” “Savings glut” “Reach for yield” “Bubble” “Liquidity” “Global imbalances”

The issues

