DISCUSSION OF:

"ACCELERATOR OR BRAKE? CASH FOR CLUNKERS, HOUSEHOLD LIQUIDITY, AND AGGREGATE DEMAND"

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Overview

¶ Goal is to identify how household financial constraints (access to liquidity) affect the impact of fiscal stimulus

  ¶ CARS program was both a rebate and provided immediate liquidity

¶ Combine data on vehicle (model) with household balance sheet position

¶ Using a diff-in-diff approach, find that CARS strongly increases the probability of buying a new car.

  ¶ Effect is a temporary shift of purchases

¶ Effect drops to 0 for households with loans on the "clunkers".

¶ Very good paper, clearly written

  ¶ Great example of how to write a good empirical paper.
  ¶ Comments on main contribution – identification of liquidity effects (sample size, others)

CARS ("Cash for clunkers") program

Overview

- Trade-in for old vehicles (<25 yrs), Jul-Aug 09
- New vehicles of better MPG (cars: <$45k, >=22MPG)
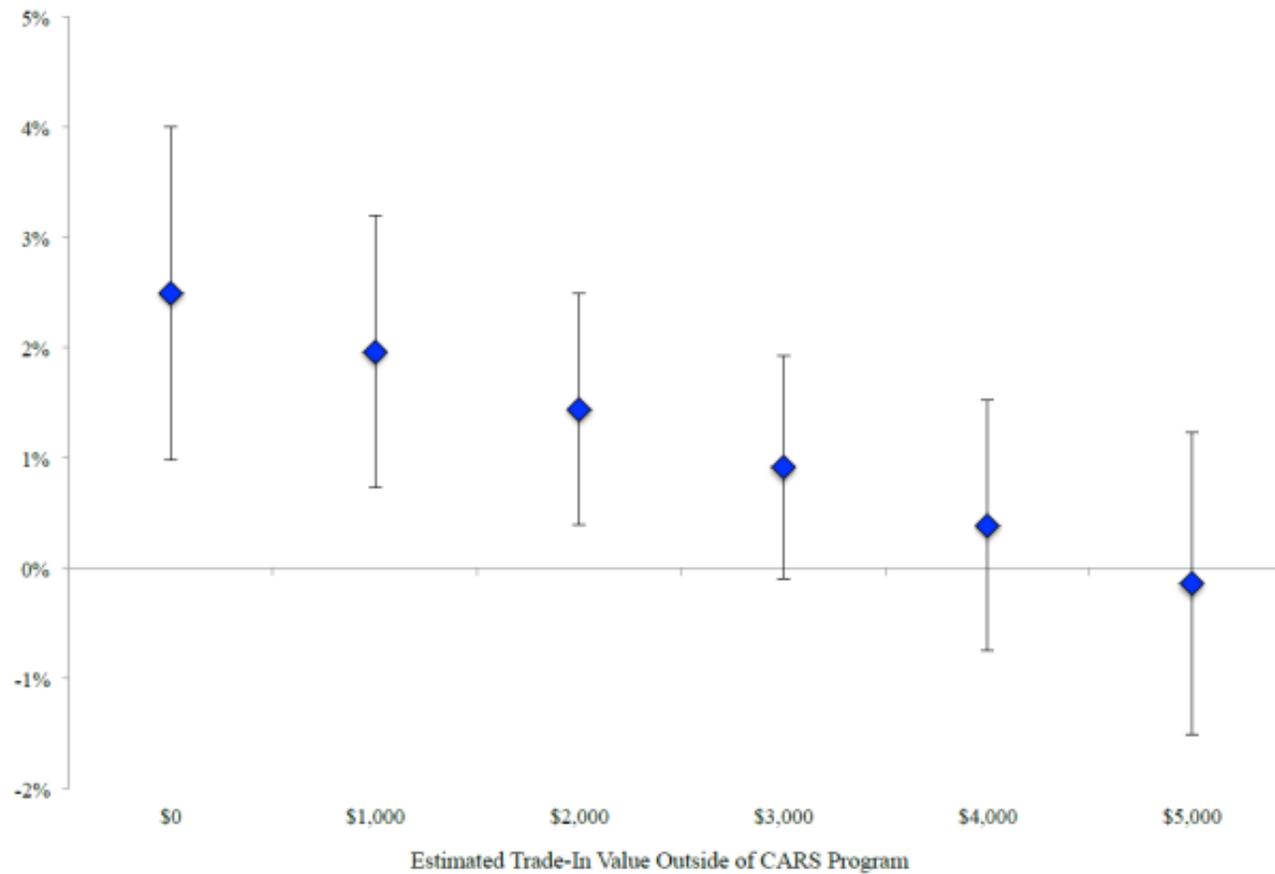- Subsidy is $3,500 or $4,500, depends on Δ in MPG

Economic subsidy

- $Max(S - V, 0),\ S \in \{3,500, 4,500\}, V$ is value of the trade-in
- Liquidity w/ program: $S - L, L$ is the loan on the vehicle

Empirical methodology

- Use BLS Cons. Exp. Survey + EPA + Edmunds
- Diff-in-diff for subset of "at-risk" households
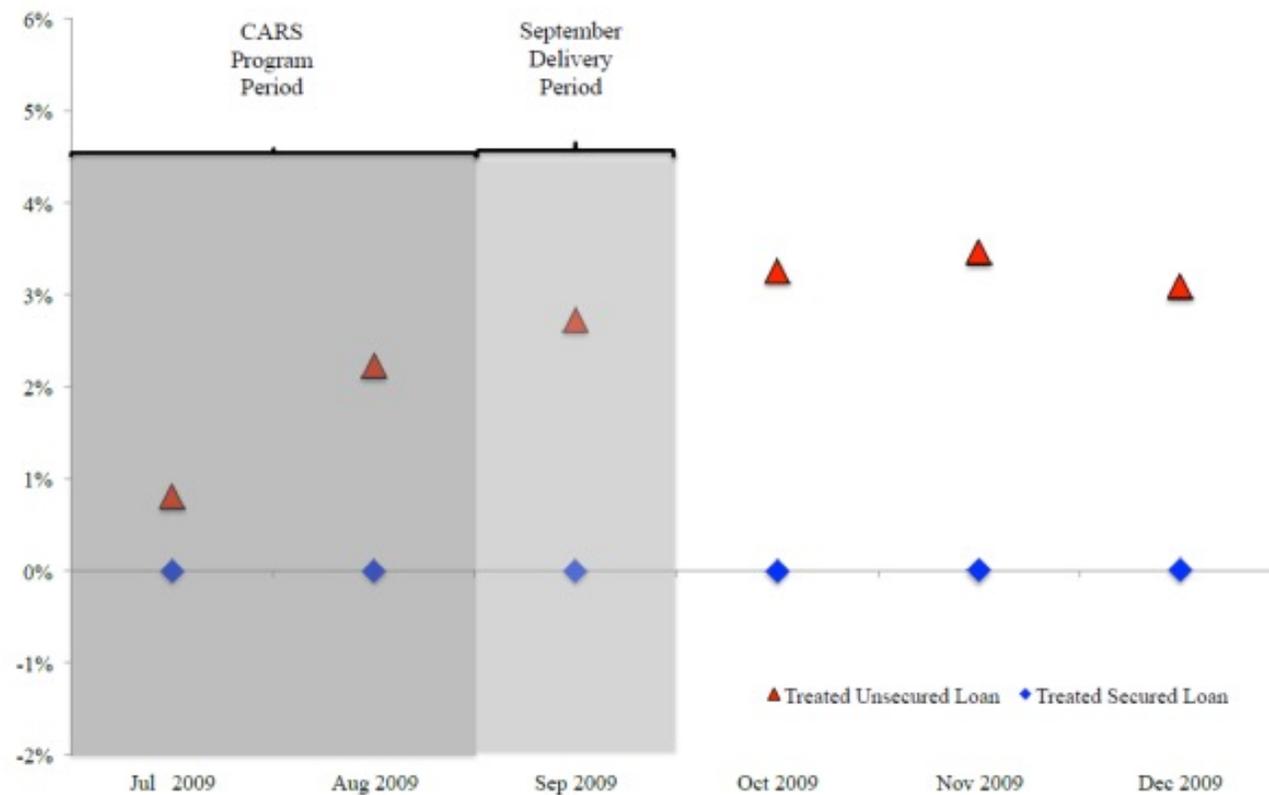- Treatment: MPG <= 18, Control: MPG >= 19.

Effect of the subsidy

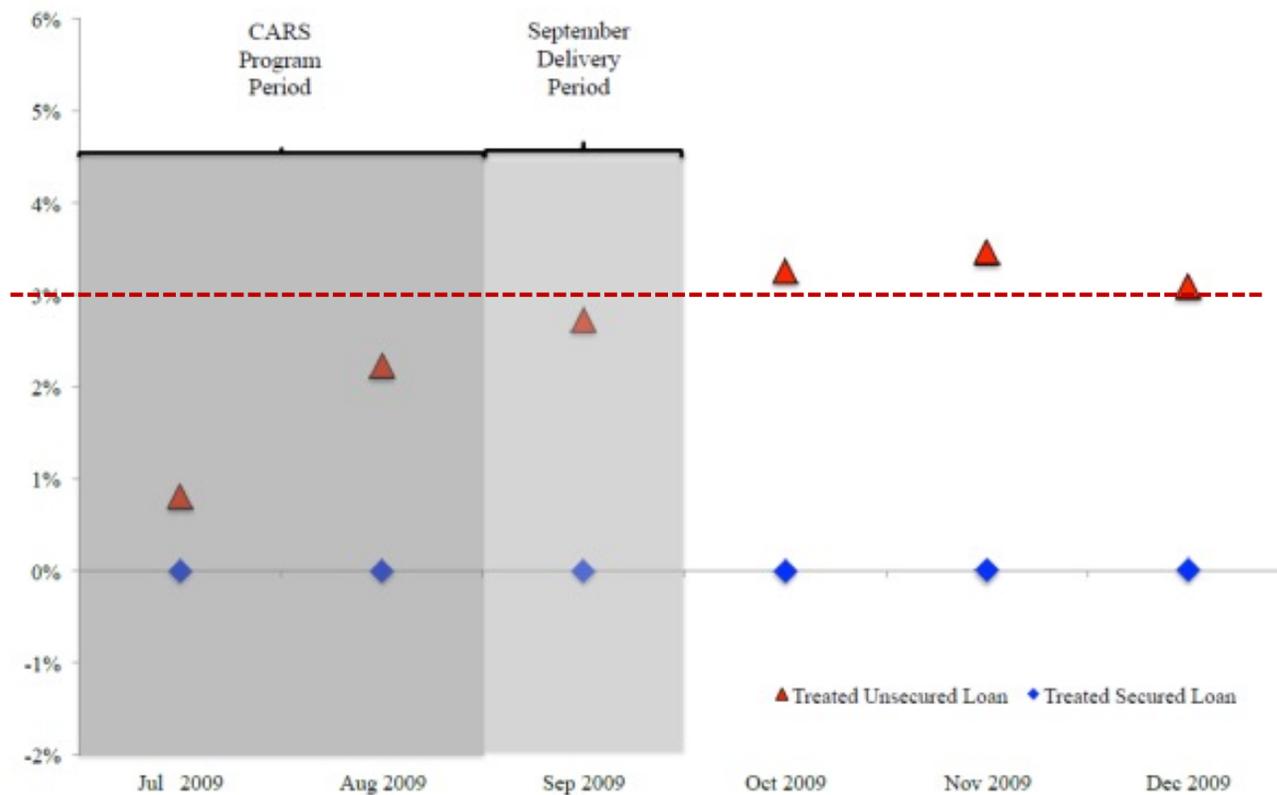# Estimates of the effect of the program on trade-ins are very clean

¶RDD "feel", and unlikely that household unobservables sort very strongly once condition on value<$5,000 and MPG between 12 and 25.

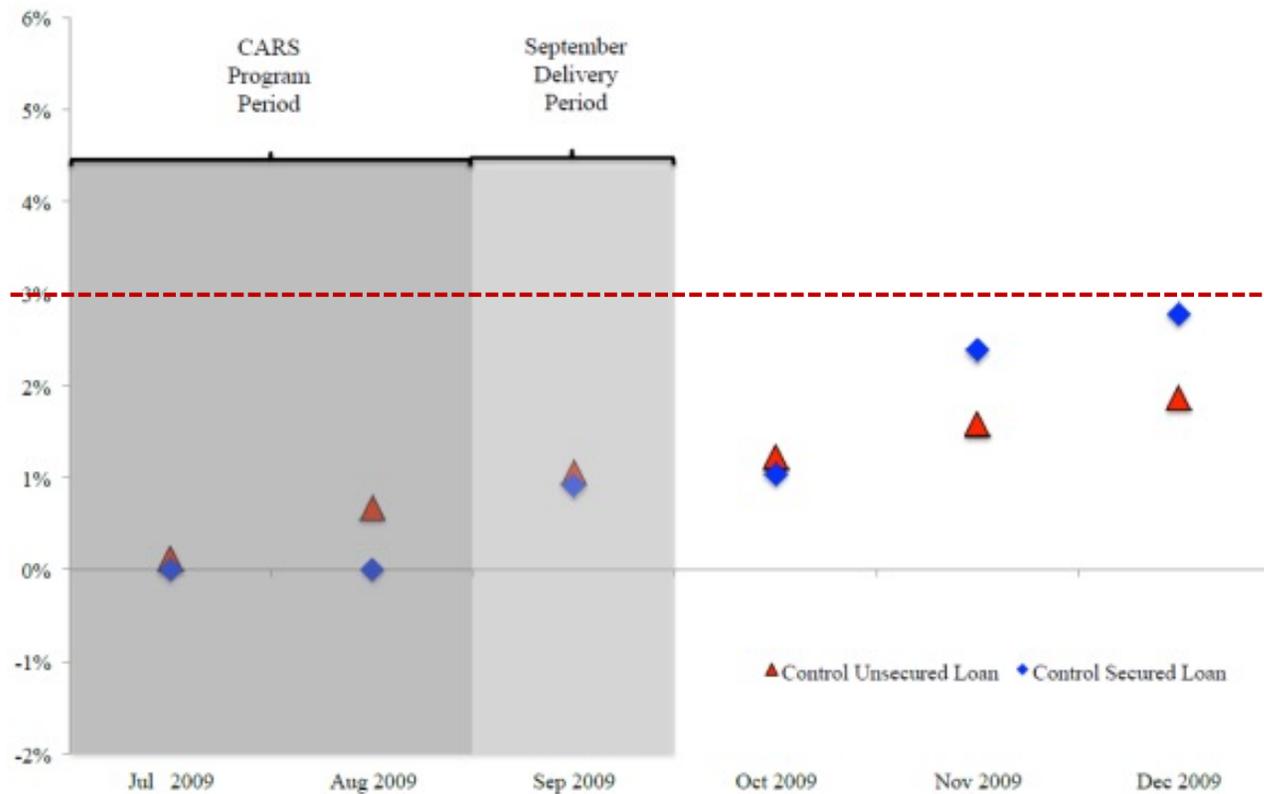¶Also convinced that this represents mostly an anticipation of purchases
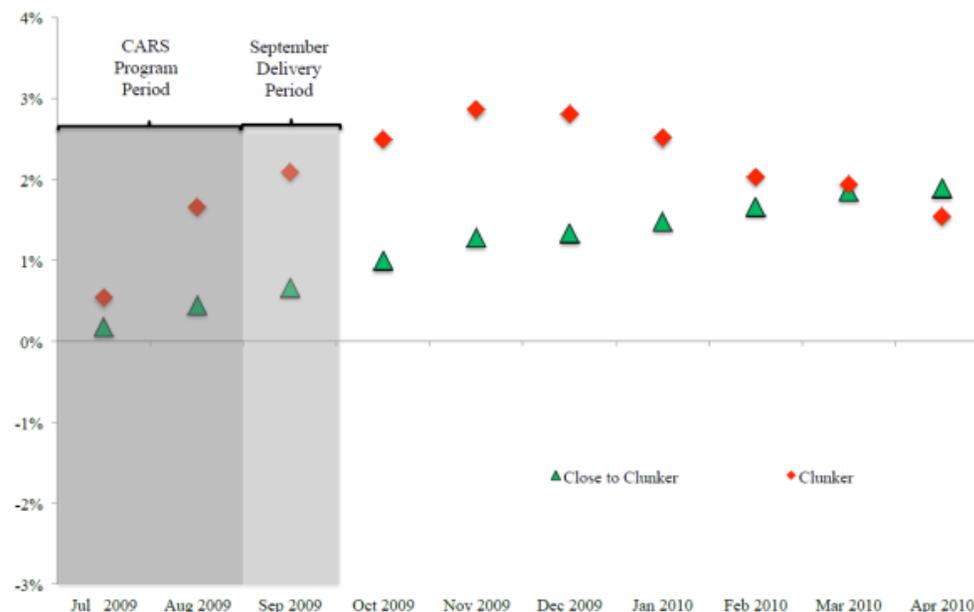
Interaction with liquidity

Interaction with liquidity

Interaction with liquidity - control

Small sample for secured loans + clunker subsample

	Clunker	Close to clunker
No Loan	1,580	2,102
With Loan	96	163
Total	1,676	2,265

¶2-3% over 6 months is small (2-3 households for "clunker, with loan" sample).

Characteristics of households by trade-in value x liquidity?

| Sample characteristics	Subsample:	Classified Clunker	Close-to-Clunker
Number of vehicles		1,676	2,265
Number of households		1,480	2,014
Sample mean			
Vehicle age (years)		13.1	11.8
Vehicle value ($ thousands)		2.1	2.1
Vehicle fuel economy (MPG)		15.6	21.0
Vehicle loan outstanding (indicator)		5.7%	7.2%
Vehicle loan balance, if > 0 ($ thousands)		5.0	4.7

Clunkers with loans – alternative hypotheses

1. Severely constrained households

¶For these cars, as long as $L \leq V$, the liquidity provision is still substantial.

  ¶ What is typical down-payment for relevant set of new cars?

¶Summary statistics suggest that $L > V$ for at least some, potentially many of them.

¶May indicate these are particularly constrained households, who may not have access to new car loans in the crisis

  ¶ Maybe these households only had access to loans with higher down-payments?

Clunkers with loans – alternative hypotheses

2. High value cars – economic subsidy is small

¶Estimated effects are largest for cars of trade-in value of <2,000
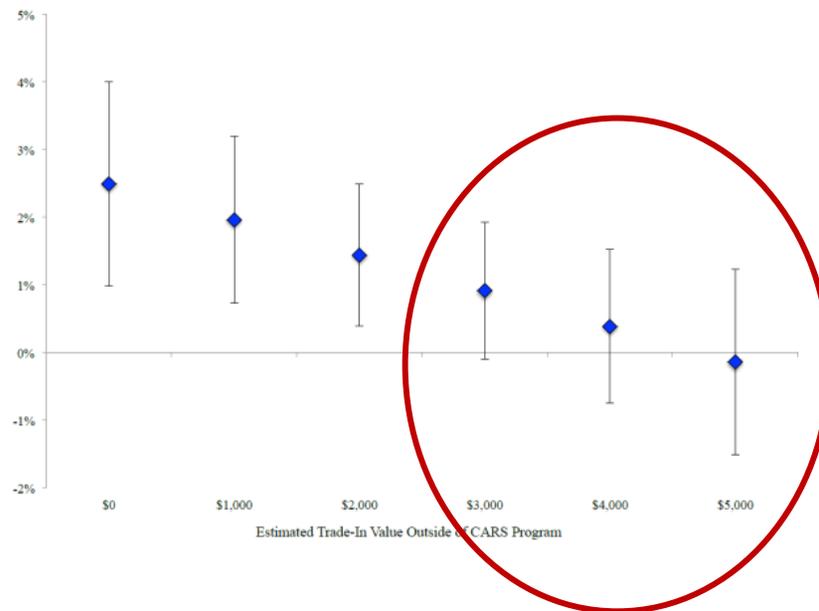
¶Is subsample of clunkers with loans of higher average value?

¶ Relative to sample owned outright

¶ May help explain the results as pure value of subsidy effect (not liquidity)