

Discussion of “Financial Intermediation, Investment Dynamics and Business Cycle Fluctuations” by Andrea Ajello

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¹The views expressed are those of individual authors and do not necessarily reflect official positions of the Federal Reserve Bank of St. Louis, the Federal Reserve System, or the Board of Governors.

1. How important are financial friction **shocks** in business cycles?

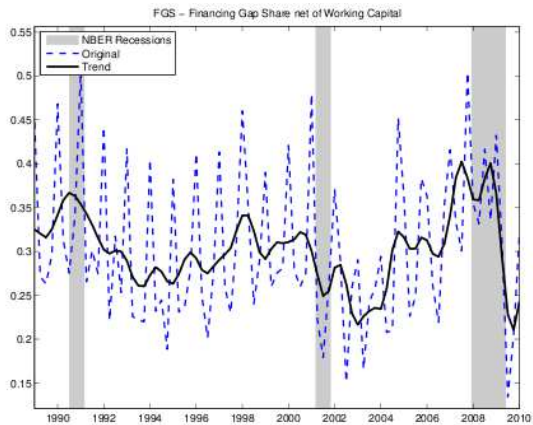
1. “a substantial 30% of firms’ investment is funded using financial markets”
2. a financial intermediation shock explains 40% of GDP volatility

Other evidence?

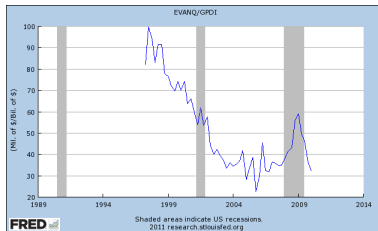
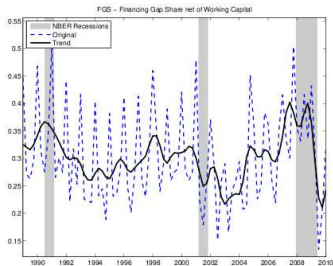
1. Horvath (JME 2000): cross-linkages between **all** sectors explain 40% of GDP volatility
2. Input-output: $(52A0+5230)=5$ (7)% of output (intermediates)

Thus: what amplifies the shocks in this model?

Financial Gap Share



Bank loans to businesses/Investment



The model



HH

Agencies

HH

Entrepreneurs

Agencies

HH

Sellers
Keepers
Buyers

Agencies

Banks

HH

Sellers

Keepers

Buyers

Agencies

Banks

Govt

HH

Sellers

Keepers

Buyers

Agencies

Banks

Govt

HH

Sellers

Keepers

Buyers

K prod.

Agencies

Banks

Govt

HH

Sellers

Keepers

Buyers

K prod.

Agencies

Final prod.

Banks

Govt

HH

Sellers

Keepers

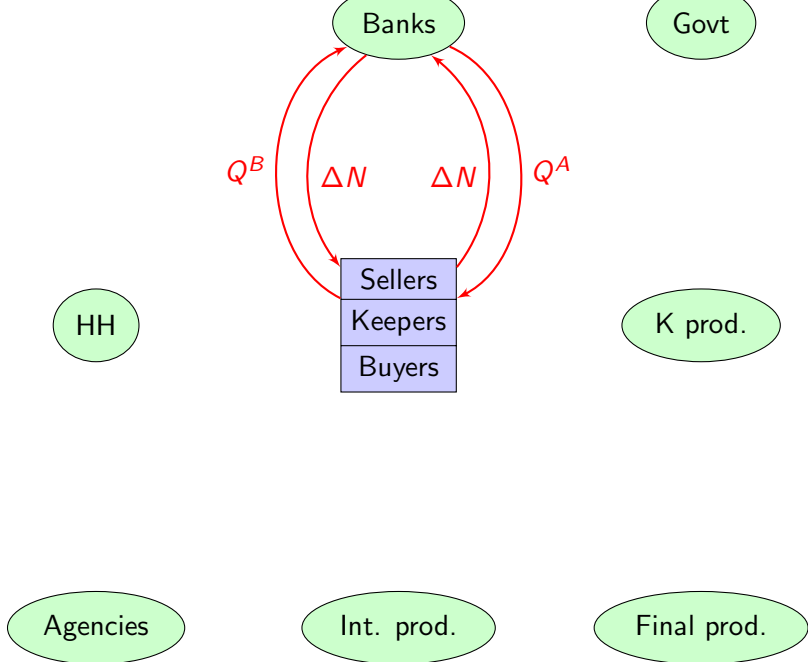
Buyers

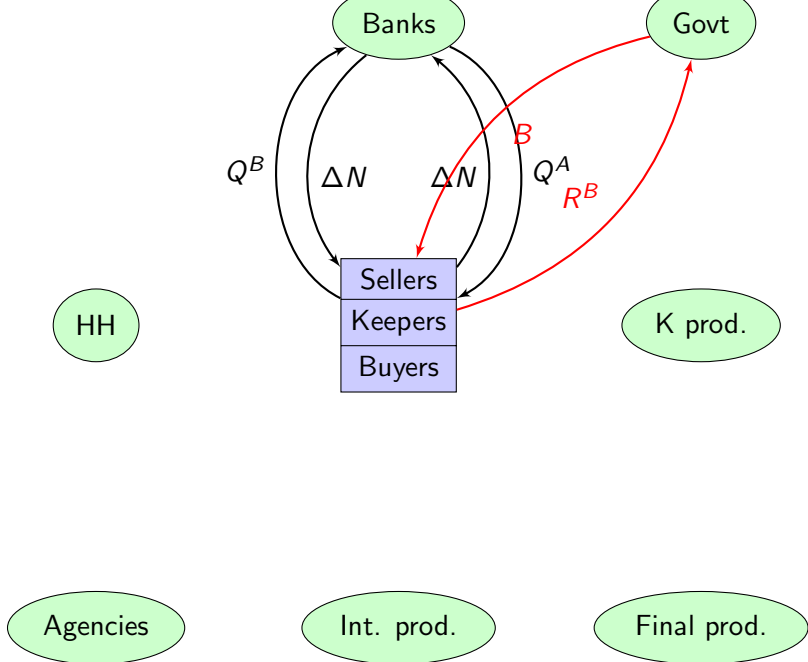
K prod.

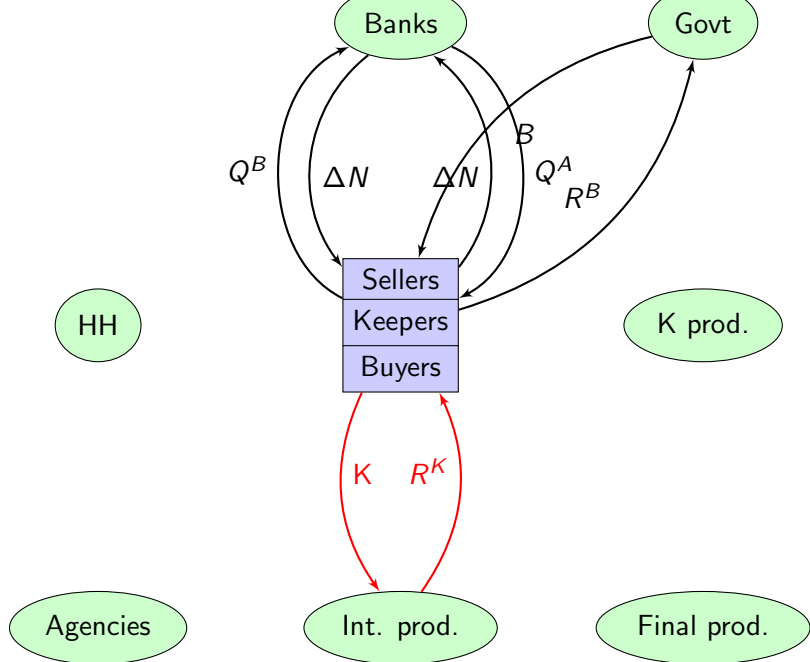
Agencies

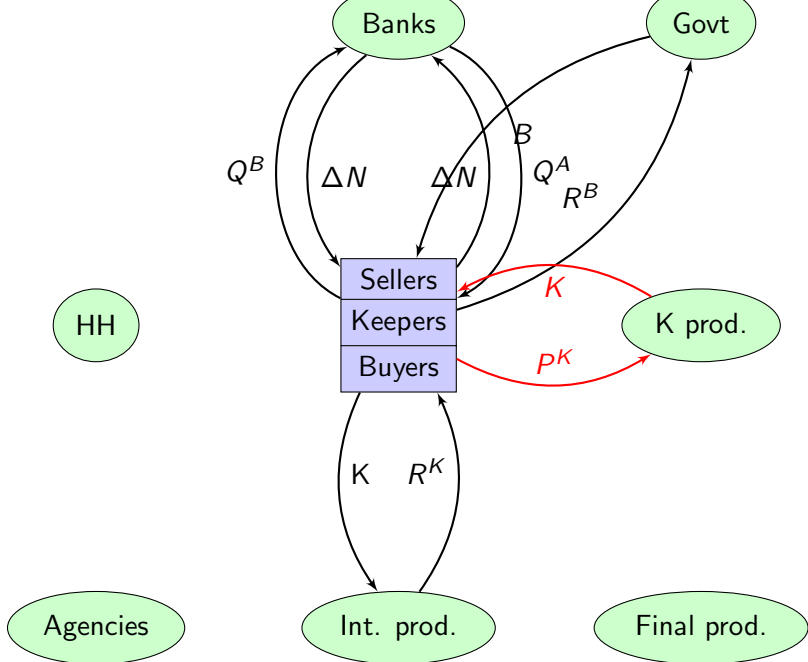
Int. prod.

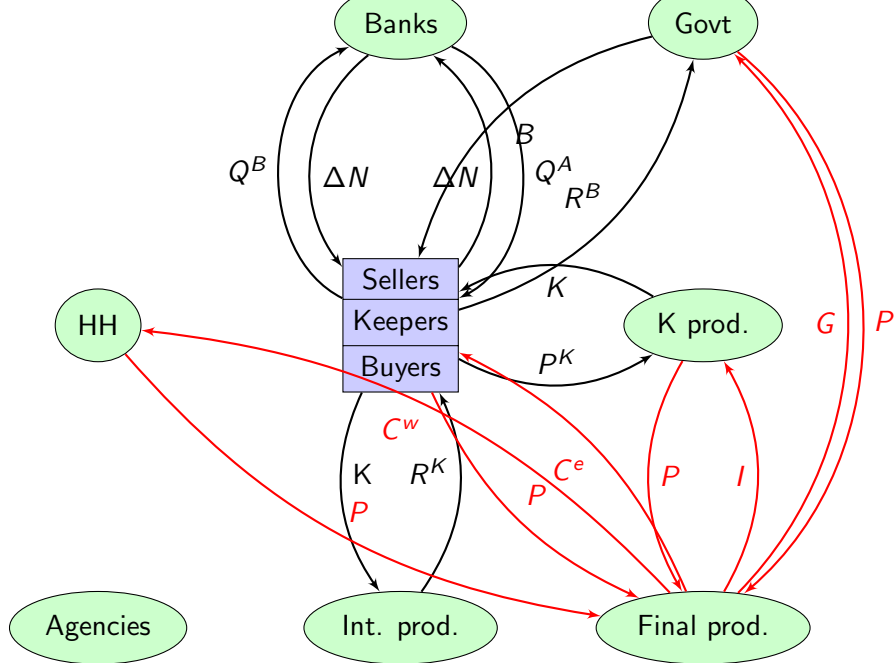
Final prod.

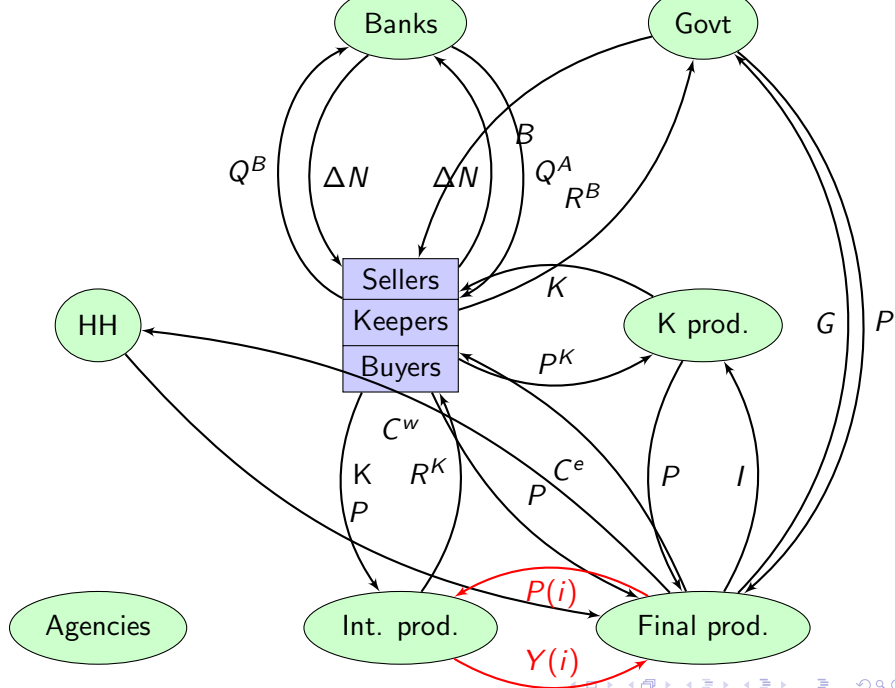


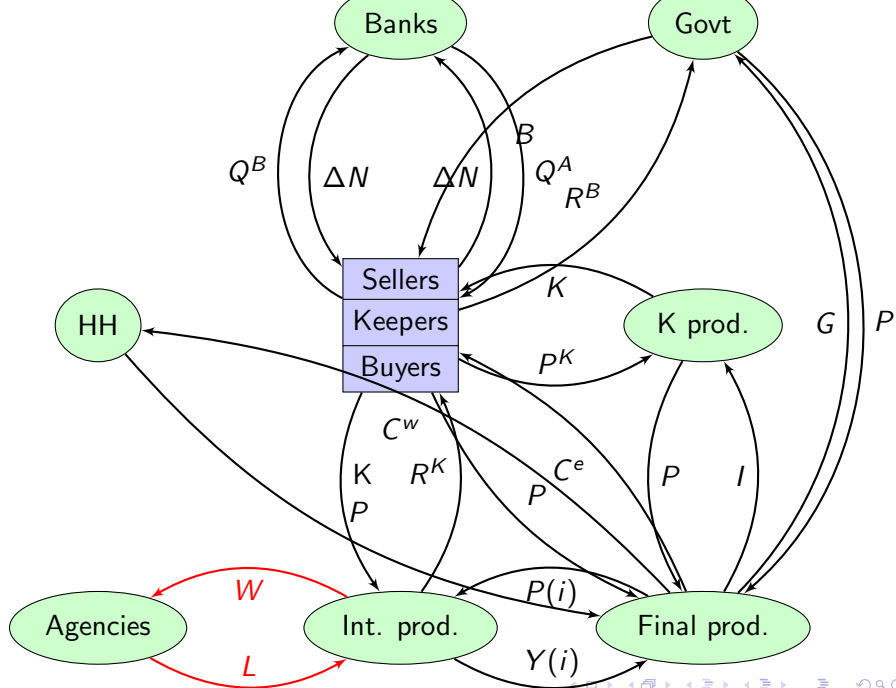


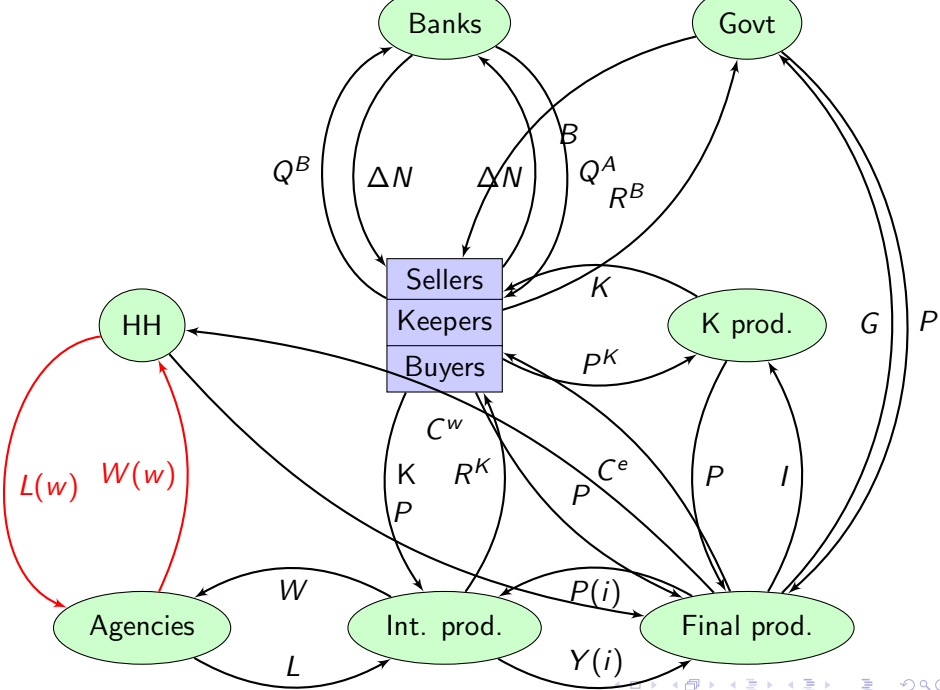


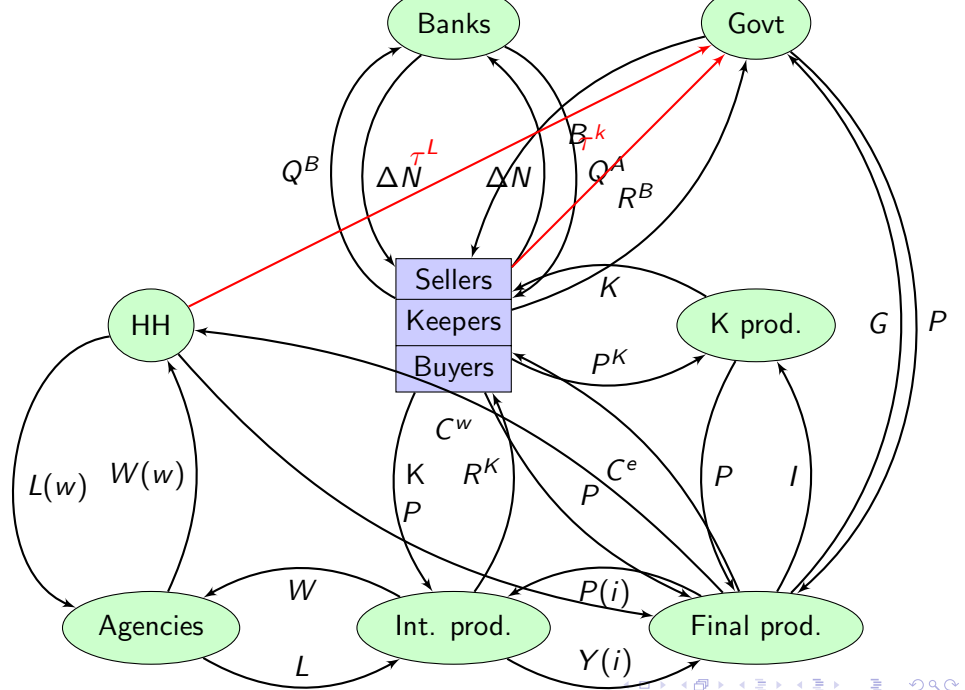


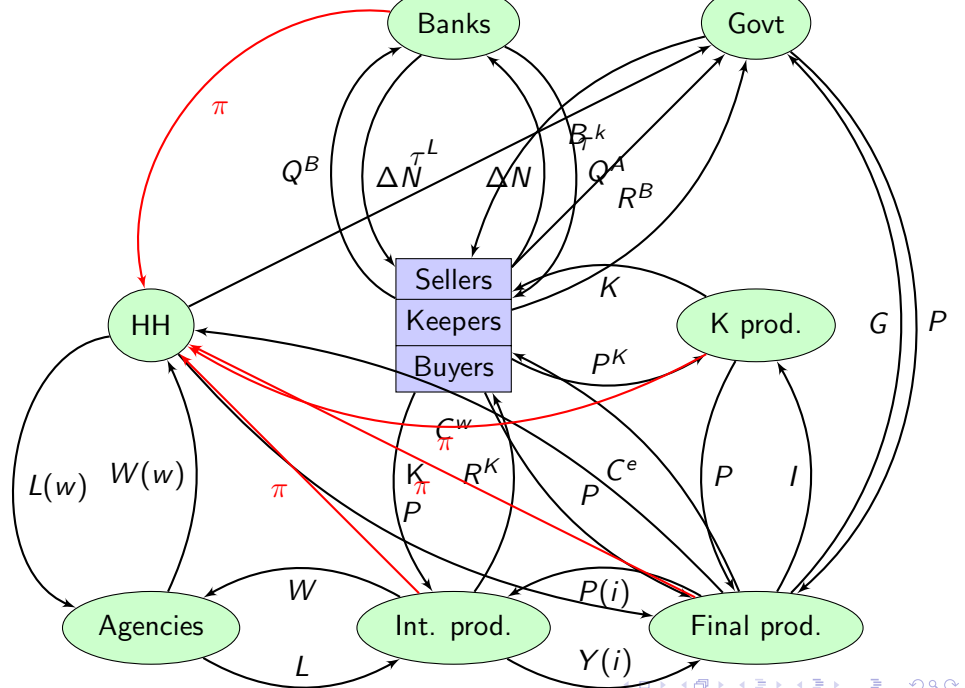


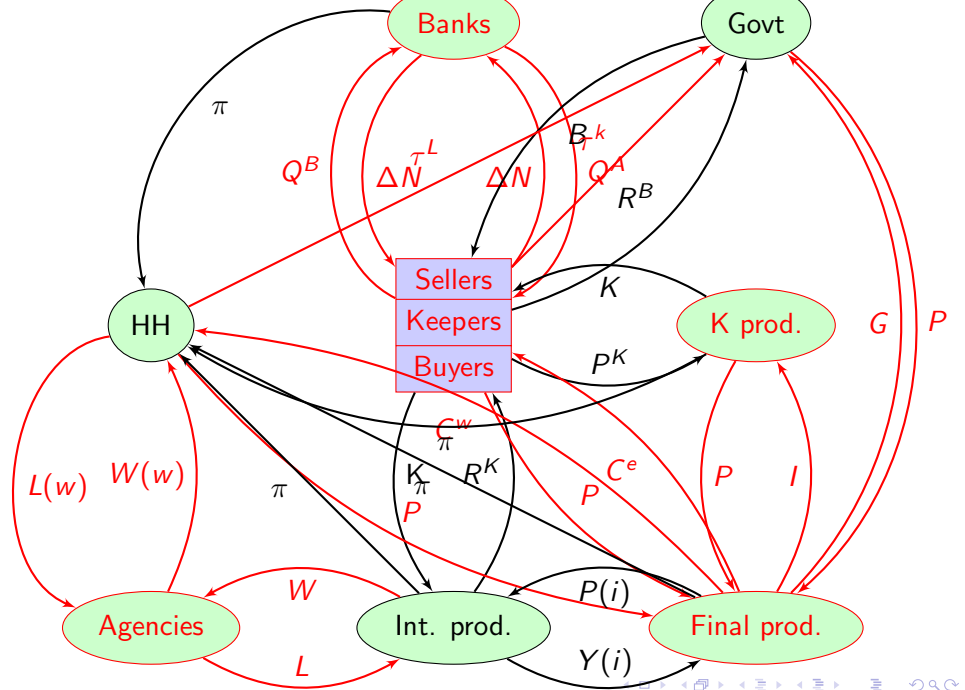


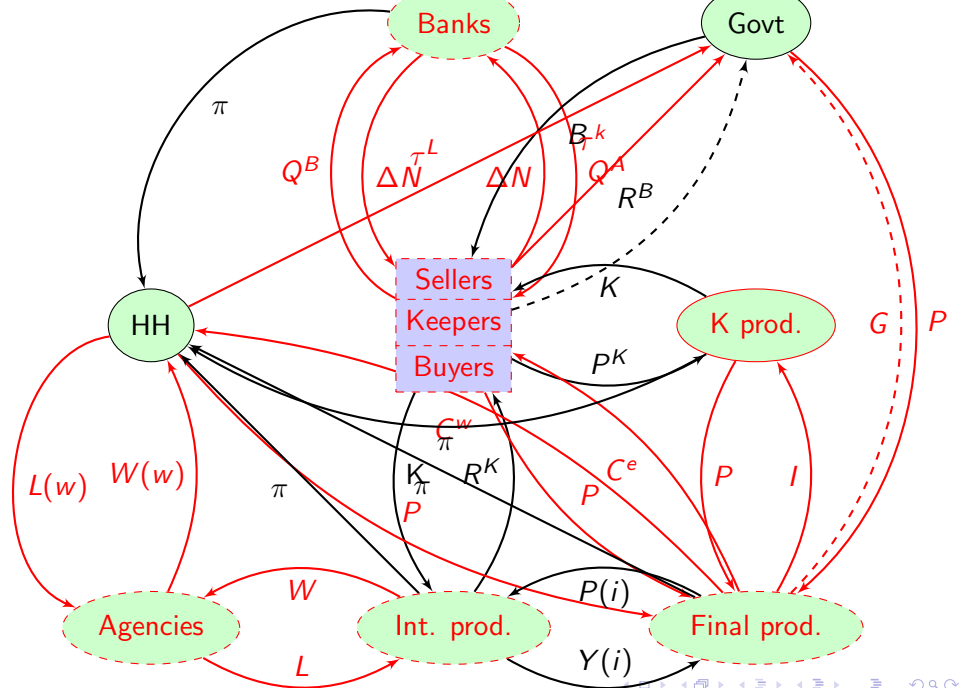












1. Can this be linearized?
2. No household savings?

1. All models are wrong
2. Shocks and frictions hide model mis-specification?
 - 2.1 Sticky wages as smoothing mechanism: C, propagation mechanism
 - 2.2 Are shocks really independent?
3. Revised data?
4. 36 parameters, 8 series, 45 quarters

1. $\tau_q = 0.173$, $\rho_z = 0.411$, $\rho_b = 0.991$, $\phi = 0.00082$, $\xi_w < \xi_P$,
 $\phi^\pi = 2.144$
2. Model without τ_q shocks.
3. Is it right to re-estimate for alternative scenarios?
4. Does model deliver on FGS?