

Global Liquidity, Asset Prices and Monetary Policy: A GVAR Perspective

Discussion by

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The paper

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- 2 **Econometric technique:** a global VAR including
 - GDP
 - money stock
 - inflation
 - short- and long-term interest rate
 - Housing price
 - stock market price

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- 2 What is the global perspective adding to the picture?
- 3 Can we improve performance for stock/housing market returns?

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 - **WSJ 8/22/2007:** rates on variable-rate credit cards, five-year new car loans and personal loans are averaging 13.9%, 7.8% and 14.5%, respectively, roughly the same as they were in January.
- **Suggestion:** include variables that reflect supply of credit to the GVAR (e.g. Commercial and Industrial Loans, Real Estate Loans, ...)

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- **Suggestion:** compare predictive ability of a closed/small-open economy VAR and of GVAR
 - MSE, LR test...
 - Diebold and Mariano (1995) test
 - ...

Improving asset returns' performance?

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- **Suggestion:** include variables have predictive power for asset returns
 - price-dividend ratios
 - Lettau and Ludvigson's *cay*
 - ...

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- Streamline econometric setup.
- Assess performance, by including extra variables and possibly by dropping Japan.