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

Discussion by

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Motivation: investigate the transmission mechanism of a credit crunch through the US, the UK, Europe, and Japan
1. **Motivation**: investigate the transmission mechanism of a credit crunch through the US, the UK, Europe, and Japan

2. **Econometric technique**: a global VAR including
   - GDP
   - money stock
   - inflation
   - short- and long-term interest rate
   - Housing price
   - stock market price
What is a credit crunch?
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What is the global perspective adding to the picture?
Comments

① What is a credit crunch?

② What is the global perspective adding to the picture?

③ Can we improve performance for stock/housing market returns?
What is a credit crunch?

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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.
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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, ...).
What is global perspective adding?

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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?

- Econometric model seems to miss stock/housing markets channels.
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- **Suggestion**: include variables have predictive power for asset returns
  - price-dividend ratios
  - Lettau and Ludvigson’s *cay*
  - ...

Concluding remarks

- Important question for practitioners and academia.
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- Streamline econometric setup.
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- Streamline econometric setup.
- Assess performance, by including extra variables and possibly by dropping Japan.