BKK the EZ Way

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Discussion by Dave Backus
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NYU STERN

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Discussion by DB
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International business cycle research overview

- Easy to explain
  - Volatilities of output, consumption, investment
  - Countercyclical net exports

- Not so much
  - Correlations of output and consumption across countries
  - Volatility of real exchange rate
  - Correlation of consumption ratio and real exchange rate
  - Correlations of returns across countries
  - Etc. ...

Poor man's summary

- No "income effects" with complete markets, additive preferences
  - Single budget constraint has single multiplier
  - Equivalently: Pareto weights constant

- Incomplete markets brings them back

- Ditto: **recursive preferences**

- The whack-a-mole problem

What CCHH do

- New features
  - ▶ Recursive preferences
  - ▶ Home bias greater for consumption
  - ▶ Persistent component in productivity growth
  - ▶ Preferences additive over consumption and labor (GHH)
  - ▶ Investment shock

- Challenges
  - ▶ Tallarini
  - ▶ Computation
  - ▶ Stationarity

How it works (my guess, subject to change)

- Recursive preferences (Pareto weights, exchange rate)

- Home bias greater for consumption (magnifies previous)

- Persistent component in productivity growth (ditto)

- GHH (moderates income effects on labor)

- Investment shock (tangential?)

Bottom line

- This paper
  - Lots of good ideas
  - Also some technical challenges
  - Keep up the good work

- Thoughts for the next one
  - Companion paper focussing on asset returns?
  - Contrast incomplete markets?
  - Break out of representative agent paradigm?