BKK the EZ Way

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Discussion by Dave Backus
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by CCHH

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 focusing on asset returns?
  - Contrast incomplete markets?
  - Break out of representative agent paradigm?