Business Cycle Implications of Mortgage Spreads

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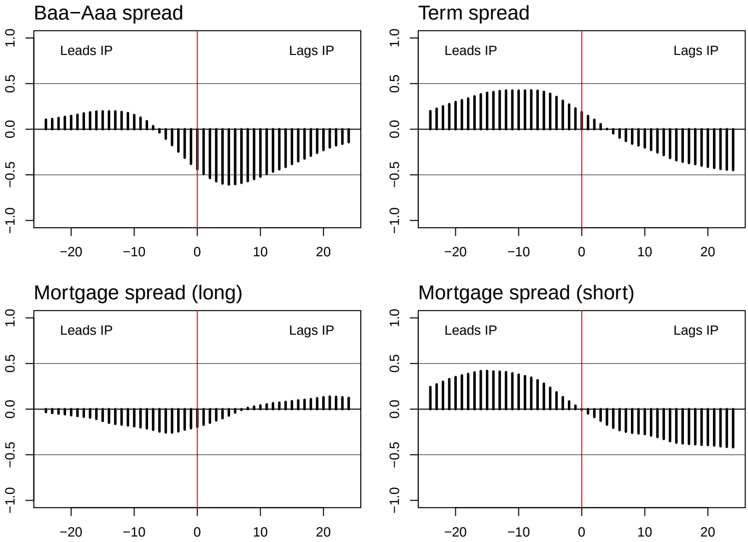
Questions

- Are mortgages different?
- What does an SVAR add to a CCF?
- What mechanism connects asset prices and business cycles?
- How do international linkages work?

Are mortgages different?



Are mortgages different?

- Asset prices and business cycles: my summary
  - Asset price information complements quantities
  - Risk spreads roughly contemporaneous
  - Returns mostly lead
  - Approximately a one-factor world
- Questions about mortgages
  - What's the risk?
  - Are they different?

What does an SVAR add?

- VARs and SVARs
  - More complex data summary
  - No factor structure
  - IRFs not weighted by importance
- Causality
  - Are spreads cause or effect?
  - Where do they come from?
  - What delivers identification here?

What's the mechanism?

- Start with $E(mr) = 1$
  - Is the action in m, r, or both?
  - How does it get there?
- Risk and the price of risk
  - Risk seems to be countercyclical
  - Why?
  - Ditto the price of risk
  - Why?

International linkages?

- Fact: asset prices more highly correlated than GDP growth
- So...
  - Where do Swedish mortgage spreads come from?
  - Is this how business cycles are transmitted?
  - Another clue about causality?