Discussion of "Macroeconomic dynamics in a model of goods, labor and credit market frictions" presented by Etienne Wasmer (Sciences Po Paris)

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Objective of the paper:

- Propose a model with frictions in goods, labor and credit market
- The model with labor market frictions generates very limited volatility and persistence (Costain and Reiter (2008), Shimer (2005), Fujita and Ramey (2007))
- Credit market frictions help generating volatility
- Goods market frictions generate volatility and are unique in generating persistence

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Supply responds faster than demand

- More firms enter in the goods market but demand is sluggish
- Goods market tightness increases (from a firm's perspective)
- Consumers want to consume more but first they have to search
- Decline in relative prices
- This moderate the incentive to create vacancies
- At later stages, effort and income increase leading to a rise in demand

• Complex model but very good intuition

• Interesting topic: the role of frictions in the market for goods

I learned a lot

Question 1: Why search frictions in the goods market?

- Two goods in the model: an essential good c_0 (numeraire) and a manufactured good c_1 (subject to search frictions)
- Manufactured good is produced with labor and has inelastic demand. Importantly, **non-storable good**.
- How should we interpret c1? Durables, housing...
- Why frictions in the goods market are necessarily search frictions?
 - Flows of entry and exit in the good market (Broda and Weinstein, 2010)
 - Buying goods implies costs

The results on persistence and volatility are obtained even without credit market frictions

	U.S. data		Imperfect goods, labor and credit markets		Imperfect goods and labor markets		Imperfect labor market only	
	a	b	а	b	а	ь	a	b
Vacancies	8.83	0.89	11.96	0.98	11.16	0.16	1.14	0.94
Unemployment	6.82	-0.88	5.16	-0.45	5.19	-0.40	0.48	-0.70
Labor-market tightness	15.41	0.90	15.51	0.91	15.06	0.84	1.40	0.99
Wage	0.52	0.56	0.89	0.92	0.96	0.92	0.69	0.99
Consumption	0.59	0.80	0.99	0.99	0.99	0.99	0.99	0.99

Table 2: Business-Cycle Statistics-Comparing Frictions

Question 3: impulse-responses in the model



Is there evidence that this is a plausible mechanism? Is the consumer search effort strongly pro-cyclical?

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- Stage 1: match with a creditor
- Stage 2: match with a worker (no production)
- Stage 3: match with a consumer (no production)
- Stage 4: production
- Alternative timing assumptions? (Ravenna and Walsh, 2008)
- Role of the small firm assumption

Role of good market frictions for unemployment dynamics

- Isolate the effects due to different frictions
- Plausibility (Christiano, Eichenbaum and Trabandt (2012), Michaillat (2012), Furlanetto and Groshenny (2012)

Question 6: Is it correct to compare a one-shock model with the data?

• Yes if you strongly believe that flctuations are driven by only shock

- No, if you believe that other shocks are relevant
 - Bai, Rios-Rull and Storesletten (2011): estimated similar model. Output fluctuations are explained by demand shocks (98%) and technology shocks are irrelevant (2%)

• Alternative approach: compare to conditional empirical evidence (Fujita and Ramey, 2007...but also Galí', 1999)

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• I enjoyed reading the paper and I learned a lot

• Interesting area for future research

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