Discussion of Jeenas & Lagos (2020)

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[1]The views expressed herein are solely mine and do not necessarily reflect the ones of the Federal Reserve Bank of San Francisco or the Federal Reserve System.

Research Question & Model Predictions

- Response of firm investment to exogenous change in stock prices: $\frac{\delta I_t}{\delta S_t^*}$
- Model predictions of "asset-price-channel":
  - $S_t \uparrow \rightarrow$ issue equity at higher price $\rightarrow I_t \uparrow$
  - Firms with less own "liquid" funds respond more
- Close connection to housing wealth effect: $\frac{\delta C_t}{\delta HP_t}$

Lots of research on "housing wealth effect", little on "asset-price-channel" !

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Intuition Identification Approach

- Imagine two firms i and j
  - they are exactly the same,
  - but firm i's stock is traded more often ("randomly assigned")

- $\frac{\delta S_t^{i*}}{\delta \epsilon_t} = \frac{\delta S_t^i}{\delta \epsilon_t} - \frac{\delta S_t^j}{\delta \epsilon_t} \rightarrow \frac{\delta I_t}{\delta S_t^{i*}}$

- Similar intuition for identification of $\frac{\delta C_t}{\delta HP_t}$
  - Saiz (2010): Housing supply elasticity instrument
  - Guren et al. (2020): Sensitivity of local to regional house prices

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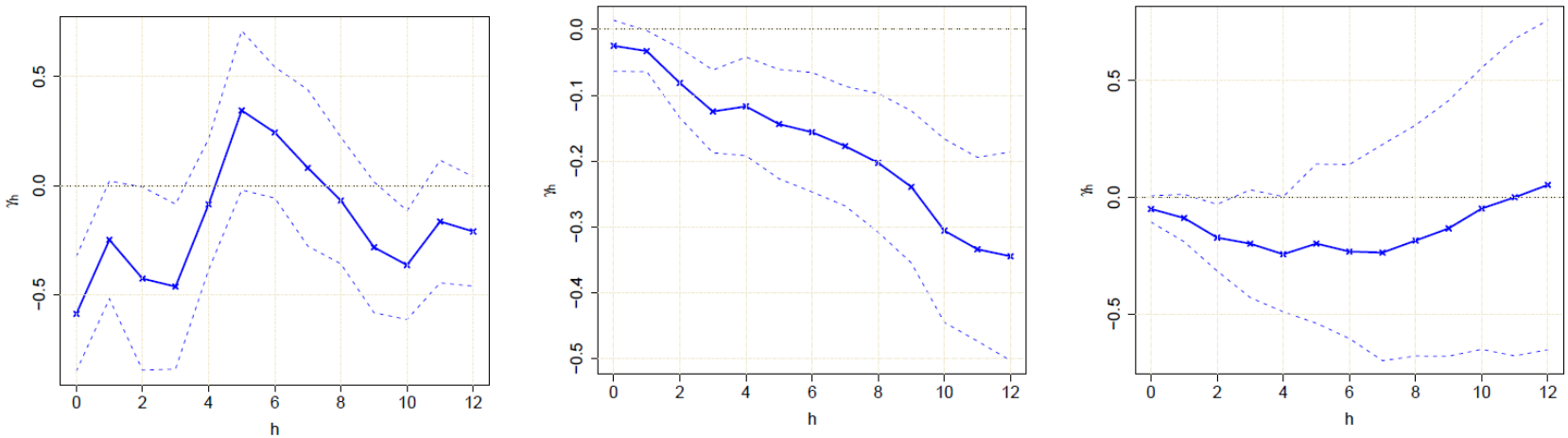
Results



(a) $\tilde{y}^i_{t+h} = \log(q^i_{t+h})$ (b) $\tilde{y}^i_{t+h} = \left(\sum_{s=0}^{h} E^i_{t+s}\right) / B^i_{t-1}$ (c) $\tilde{y}^i_{t+h} = \left(\sum_{s=0}^{h} I^i_{t+s}\right) / K^i_{t-1}$

Notes: Point estimates and 95% confidence intervals for γ_h from estimating specification (6), controlling for $\hat{u}^i_{h-1,t+h-1}$ when $h \geq 1$. Confidence intervals constructed based on two-way clustered standard errors at firm and industry-quarter levels.

Comments

Comments (1)

1. Assumption: Differential firm-responses are due to turnover-differences
   - $y_{t,t-1} = \alpha + \beta\epsilon_t \cdot \mathit{turnover}_{t-1} + \gamma Z_{t-1} + u_t$
   - More evidence: $\mathit{turnover}_t = \alpha + \beta X_{t-1} + \widetilde{u}_t$
   - Use $\widetilde{u}_t$ above

2. IV-setup: rescales IRFs (Paul, 2020)
   - $y_{t,t-1} = \alpha + \gamma q_t + u_t$
   - $q_t = \beta\epsilon_t \cdot \mathit{turnover}_{t-1}$
   - Direct vs. indirect effects: Holm, Paul, Tischbirek (2020)

3. Sign of Tobin's q response:
   - Higher turnover, lower "liquidity premium" (LP)
   - $\frac{\delta LP}{\delta i} > 0 \rightarrow$ weaker responses for higher turnover

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1. Interpretation of IRFs:
   - Timing of IRFs to align with theory; cumulative responses
   - If investors price mechanism: stock prices incorporate invesment response

2. Why focus on Tobin's q? $q = \frac{Market\ Value\ Assets}{Replacement\ Value\ Assets}$
   - Incorporates response of investment through assets
   - Theory just about stock prices?

3. Integrate residual from LP in $t + h - 1$ into LP for $t + h$:
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   - Estimate all LPs jointly with GMM, otherwise se artificially low
   - Or: don't integrate residual, but use Driscoll-Kraay se

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   - Miao & Wang (2019): $L_t \leq S_t(\xi K_t)$
2. Do MP-surprises give standard macro responses?
   - Ramey (2016): Responses with LPs go against textbook views
3. Aggregate relevance?
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   - Variance decomposition: How much of investment variation can be explained?

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