Discussion about "Macroprudential Policies in a Low Interest-Rate Environment"

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Main contributions

- This paper analyzes the role of macroprudential policies in a low interest-rate environment
  - Especially with Zero Lower Bound of nominal interest rate.
- The macroprudential instrument is a loan-to-value ratio (LTV) rule
  - A Kiyotaki-Moore framework with endogenous collateral requirements.

The logic

- Economies with financial frictions (collateral requirements) and low interest rates are particularly vulnerable with Zero Lower Bound of nominal interest rate.
- Then we need some macroprudential policy to stabilize the economy.

Comments

- The macroprudential instrument is a feedback from expanding credit to a tight collateral requirement.
- The trade-off behind the optimal feedback is not so clear.
  - Expanding credit induces a tight collateral requirement. However, a tight collateral requirement may cause a large fluctuation of the output, since the asset becomes too valuable.

Suggestions

- This is a theoretical paper with rich monetary and macroprudential instruments.
  - However, mainly through simulations.
- We could learn from data
  - Is it possible to use New Zealand experiences to regress LTV on credit and output?
  - Add this estimated macroprudential rule to the endogenous equations of the model and form a VAR.
  - Use VAR to estimate the impulse response from real data.