

Discussion of

The Short Lags of Monetary Policy

by Buda, Carvalho, Corsetti, Duarte, Hansen, Moura, Ortiz, Rodrigo, Rodriguez Mora, Silva

A. Cesa-Bianchi*

Bank of England, CEPR, and CfM

New Evidence on the Monetary Transmission Mechanism

20 May 2024

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My discussion

► The praise

- * Great paper, can help to improve our understanding of how monetary policy works
- * Potentially game-changing for real-time policy making

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▶ The comments

[#1] Big picture

[#2] Nitty-gritty

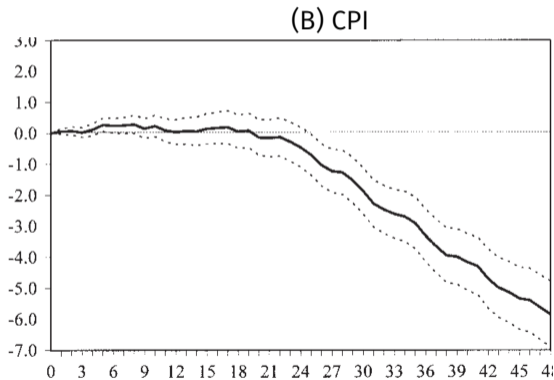
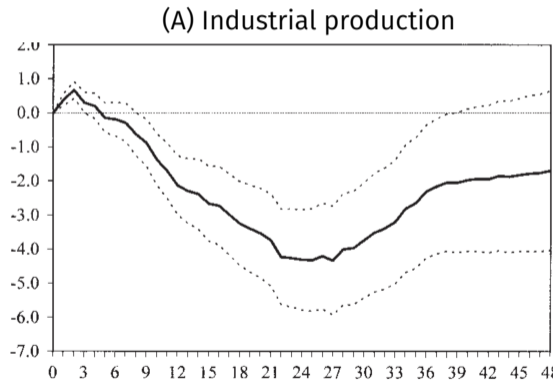
[#1] **Big Picture**

The lags of monetary policy

- ▶ What do we know about the short-run effects of monetary policy?

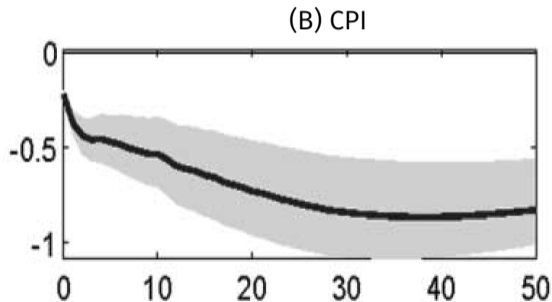
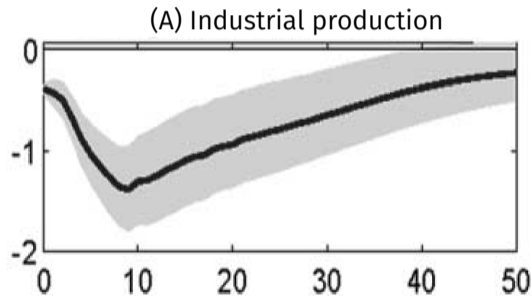
The lags of monetary policy

- ▶ What do we know about the short-run effects of monetary policy?
- ▶ **Classic view:** long lags (e.g. Romer and Romer, 2004)



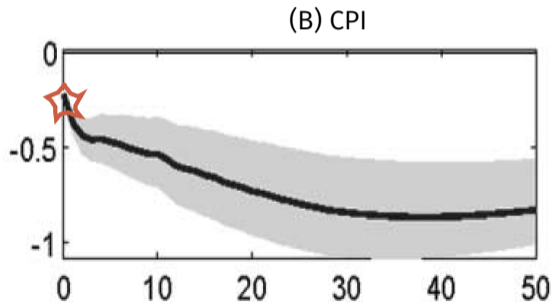
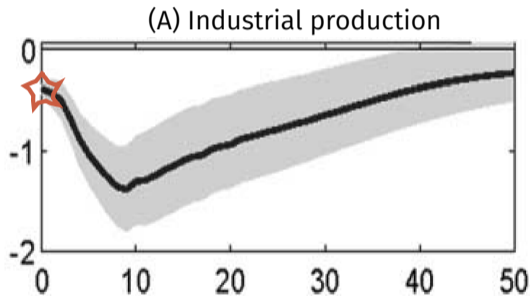
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- ▶ What do we know about the short-run effects of monetary policy?
- ▶ **Modern view:** short lags (e.g. [Bauer and Swanson, 2023](#))



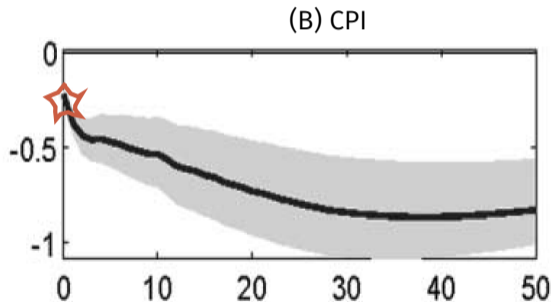
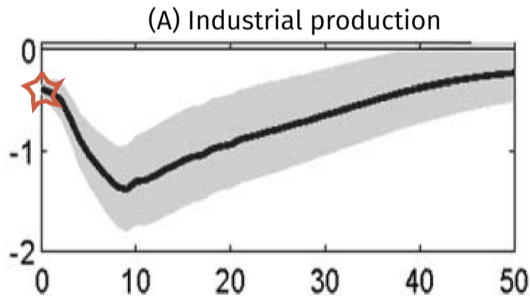
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- ▶ **This paper** Can help understand what is under the bonnet of the modern view

The lags of monetary policy: Mechanisms

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- ▶ ... but paper could do more to shed light on the transmission mechanisms

The lags of monetary policy: Mechanisms

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- ▶ What can we learn from large heterogeneity of responses by categories/sectors?
 - * Role of consumers' credit constraints?
 - * Role of production network / complementarities?

The lags of monetary policy: Mechanisms

- ▶ Weekly DSGE à la Smets and Wouters provides insights on what is going on under the bonnet...
- ▶ ... but paper could do more to shed light on the transmission mechanisms
- ▶ What can we learn from large heterogeneity of responses by categories/sectors?
 - * Role of consumers' credit constraints?
 - * Role of production network / complementarities?
- ▶ Heterogeneity could also provide insights into the potentially 'variable' lags of monetary policy

[#2] **Nitty-gritty**

Empirics: Recap

► Outcome variables

- * Daily series (y_t)
- * 90 day moving average (\bar{y}_t)
- * Take a year-on-year growth rate ($\Delta\bar{y}_t$)

► Shocks

- * High-frequency, poor man à la Jarociński and Karadi (2020)

► Local projection

$$\Delta\bar{y}_t = \alpha^h + \beta^h shock_t + \sum_{l=1}^{90} \varphi_l^h \Delta\bar{y}_{t-l} + \theta^h cases_t + \delta^h stringency_t + \epsilon_{t+h}$$

Empirics: Comments

- ▶ **Comment** Heteroskedasticity vs. Heteroscedasticity & Autocorrelation robust standard errors
 - * Based on insights from [Montiel Olea and Plagborg-Møller \(2021\)](#)
 - * Need to control for lags of the variables in the DGP?

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- ▶ **Comment** Moving averages and yearly growth rates
 - * Overlapping observations \Rightarrow Moving average error term?
 - * What are the implications for inference?

Empirics: What I would have done

$$y_{t+h} = \alpha^h + \alpha_w^h + \beta^h(i_t | shock_t) + \sum_{l=1}^p \varphi_l^h y_{t-l} + \sum_{l=1}^p \vartheta_l^h X_{t-l} + \dots + \epsilon_{t+h}$$

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► Weekly aggregation (y_t)

- * No overlapping observations, minimal aggregation bias

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- ▶ Add lags of other weekly variables (X_t)
 - * Improve efficiency (and potentially consistency)
- ▶ Estimate LP-IV
 - * Deal with noise in $shock_t$

In sum

- ▶ A very nice paper, with many interesting avenues for further work
 - * Exploit heterogeneities to understand channels
 - * State dependencies ('variable' lags)

- ▶ Real-time application very promising

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