Discussion of "Liquidity and Inefficient Investment" by L. Zingales and O. Hart

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UCSD and UPF

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 - the optimal policy is time-inconsistent

The framework

- 2 agents: "doctors" and "builders"
- 3 goods: "wheat" (w), "doctor services" (d), "buildings" (b)

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- No contemporaneous trading

• First-Best equilibrium: $d = 1 \leftrightarrow b = 1$ $p_b = p_d = 1$

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Asset Payoff (2eR)

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Solution 2010 Sector 2010 S

Doctors' investment choice: taking prices as given

$$\max_{x^{L}} \left[\pi U_{d}^{H}(x_{-}^{L}, 1, 1) + (1 - \pi) U_{d}^{L}(x_{+}^{L}, p_{b}^{L}, p_{d}^{L}) \right]$$

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Scope for policy intervention!

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 - opposite of Kydland and Prescott (1978), Chamley (1986), Judd (1985)
 - similar to results in debt models [e.g. Lucas-Stokey (1983), Debortoli and Nunes (2013, JEEA)]

Total Debt Balance and its Composition

15 15 HE Revolving Auto Loan Credit Card Student Loan Mortgage ■Other 2013Q2 Total: \$11.15 Trillion 2013Q1 Total: \$11.23 Trillion 12 12 (3%) 9 9 (5%) 6 6 (71%) 3 3 0 0 63:01 Source: FRBNY Consumer Credit Panel/Equifax

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Trillions of Dollars

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Other Comments / Suggestions

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- If gov't liquidity is financed by distortionary labor taxation, the fiscal multiplier could be lower (even negative) recent crisis.