

Discussion of Lagerborg, Pappa, & Ravn Sentimental Business Cycles

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July 2019

Sentiments and Business Cycles

The notion that sentiments can affect the economy is as old as macroeconomics itself (Keynes, 1936).

- Cf. Hassler 1996, Bloom 2009, Lorenzoni 2009, Nimark 2014

“Consumer confidence” important in business economics, policy analysis.

Scant evidence of sentiments \rightarrow GDP.

- Cf. Mian, Sufi, & Khoshkhoh, 2015.

Hard to generate them theoretically.

This paper

Use mass-shootings events as an instrument for consumer confidence (in a Proxy SVAR).

- Mass shootings correlated with residual consumer confidence (first stage).
- Mass shootings plausibly exogenous to state of business cycle (exclusion restriction).
- → Exogenous shocks to consumer confidence harm production and unemployment, lower interest rates.
- Consumer confidence contributes large share of fluctuations

HANK-DMP model (as in Ravn and Sterk, 2017) with noise to long-run TFP growth.

- Noise shocks match the empirical IRFs well.
- No heterogeneity in beliefs required.
- Active ingredients: Heterogeneity in employment, and (endogenous) countercyclical risk.

Discussion

Mass shootings are plausibly exogenous.

- But are they shocks to sentiments?

How does model relate to empirical shocks?

- Do we panic about long run TFP after school shootings?
- Why is the stock market response so benign in the data (vs. theory)?
- Does it matter?

Model makes theoretical contribution that could be emphasized more.

- Importance of HANK.
- Is limited heterogeneity limiting or accentuating the role of sentiments?

My Sentimental Skepticism



Are Mass Shootings Exogenous?

Debate in literature whether economic conditions → mass shootings.

LPR 2019, this paper: no.

Suggestion: Use only intensive margin of shooting casualties in first stage.

- Killer's success plausibly random.

Are These Sentiment Shocks?

What is the causal chain of events?

- LPR(?) Shooting \rightarrow panic \rightarrow pessimism.
- More plausible Shooting \rightarrow more caution \rightarrow lower consumption \rightarrow **correctly** anticipate others will do the same.

Does it matter?

- Perhaps for modelling strategy.
- Isn't this the β shock in the ZLB lit?
- Isn't this closer to Keynes' original formulation?

Suggestion: Is there some cross-sectional variation that could disentangle the two?

Modeling Sentiments

Mass shootings → TFP?

- Isn't this more like a β (news) shock?
- My view: this is a consumption tax/wedge.

Does it matter?

- Do all shocks leading to lower labor demand have the same implications?
- Is there a news shock that wouldn't hit the stock market?

Suggestion: Additional moments to shed light on the nature of the shock.

Theoretical Contribution

(Realize the paper is preliminary)

Could flesh out the role of countercyclical risk more.

Could better emphasize the contribution of heterogeneity.

- What would be lost in a rep agent model?