Discussion of "Network Effects of Monetary Policy: Evidence from the European Stock Market" by Zornitsa Todorova

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Overview

What role does the production network play in the transmission of monetary policy shocks in the Eurozone?

▶ Spatial Autoregression (SAR) analysis.

▶ 'Target' and 'Path' shocks identified using changes in interest rate swap rates of varying maturities around announcements. The two shocks are the first two principle components of these series.

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▶ 'Target' and 'Path' shocks identified using changes in interest rate swap rates of varying maturities around announcements. The two shocks are the first two principle components of these series.

▶ A large amount of the stock market response to MP shocks is due to network effects: reaction would be 40%-50% smaller if all firms sold only to consumers pre-ZLB, 70% smaller post-ZLB.

▶ Network effects are heterogeneous: well-connected industries react less to MP shocks, but more of their reaction comes from network effects.

Comments: General

Great paper!

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1) Focus more on the truly novel sections: this is a lot more than a replication of Ozdagli and Weber (2017) for the Eurozone.

- ▶ Cross-country links have disproportionately large network effects - why?
- ▶ Path shocks. Emphasise network effects are stronger in ZLB. Why does being globally connected insulate you from target shocks but not path shocks?

2) Are all of the exercises necessary?

- ▶ Comparison with CAPM. Upstream vs. downstream.
- ▶ The model?

Comments: Specific

1) Is a static model useful for thinking about the path factor?

▶ Static model implies the SAR form - intuition on how dynamics would change that?

2) Estimation assumes fixed spatial weight matrix across 2001-2017. Check for breaks?

▶ Only check is the R^2 of regressing future input-output matrices on the 2000 matrix - mention this earlier.

▶ In conflict with your policy point about European convergence changing the structure of the network?