

“Limited Risk Transfer: A New Benchmark for Macro-Finance”

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How and what should we learn from portfolio data?

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Concern with demand estimation: hard to identify from observational data.

- No arbitrage \Rightarrow “ceteris paribus” price shocks are essentially unobtainable.
- Need *many* independent quasi-experiments ($N \geq J$), or model structure.

Full details in “A Trilemma for Asset Demand Estimation.”

\Rightarrow This makes (2) a natural and promising approach.

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This is completely compelling – it's a central mechanism.

(But unfortunately, theory and data aren't particularly close.)

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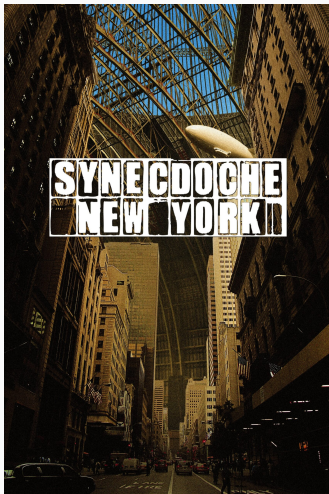
Many simultaneous forces can jointly produce a given risk transfer.

- Forward- and backward-looking variables (expected vs. realized returns.)

What does this mean for our models?

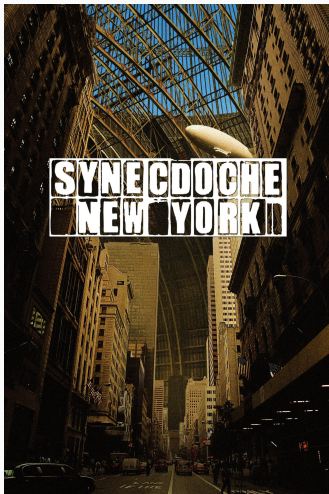
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“The data is rejecting too many good models.”

Broader point stands: *given a mechanism* or shock, risk transfer is informative.

Would be great to **augment RT with instruments or identified shocks.**

What is the information contained in risk transfer?

RT is an indirect statistic that depends on *marginal* gains from trade.

Many models which appear to be different can produce the same risk transfer.

- Example: $RT = 0$ with zero **OR** infinite differences in risk aversion.

Similarly: can cut and slice investors into groups to target different margins.

Practical concern: how should we discipline these choices?

Q: How exactly should we use risk transfer to distinguish between models?

Many model or implementations may reproduce a given risk transfer.

Many fewer models will also hit the same *level* of risk exposure.

- Example: zero or infinite differences in risk aversion.

Would be great to further emphasize **joint restrictions** from portfolio moments.

- Insightful paper that offers new discipline for very important questions.
- Small tweaks can make it even more impactful.