Feedback following Hopkins Talk, 18 Sept 2018

From Chris (initial take):

Brief feedback: It is possible to make a presentation that satisfies both Larry Ball and, say, Greg Kaplan.  The way to do it is to simplify the presentation in ways that signal, to Greg Kaplan, that you understand all the things he understands, but that you have deliberately (and judiciously) pared the things "experts know" back to the point where even Larry can understand it.  (And I say that with deep respect for Larry's intellect).  The trick is that for things that are thoroughly understood by the cognoscenti, you need only to say something that will trigger that part of their brain, but which is at the same time comprehensible to Larry.  You need to differentiate those kinds of things from those that even Greg Kaplan (or Richard Blundell) are stupid about, like time aggregation, where you need to dumb it down for everybody (because even RB or GK are stupid about things they haven't thought about -- EVERYONE is stupid about things they haven't thought about).

From Shujaat:

1. Hand-to-mouth needs to be defined.
   1. A person could be poor and without any debt. Would they still be hand-to-mouth?
   2. I think it would be nice to define the term “hand-to-mouth”, because it’s being used for wealthy and poor people, but the defining characteristic for “hand-to-mouth” seems to be eluding the audience. Is it tied to wealth, net wealth, or debt burden?
2. There needs to be a justification for the “common assumptions”
3. Identification Restrictions: Income
   1. Talk a little about continuous time
   2. Make it clear that the y\_t equation has nothing to do with time aggregation.
   3. The font size of f(t) in the title of the graph was very small.
   4. Replace generic with “an example”
4. 6th slide in Empirical Strategy has too much math, with a lot of subscripts, that make it difficult for viewers to wrap their head around the main intuition behind this slide.
   1. I think a better job could be done in providing the intuition.
   2. The last variance result that you get should be mentioned earlier on, since that’s the main thing that you are trying to convey. A better title maybe?
5. 1st slide Data 🡪 last bullet point could be divided into multiple bullets.
6. 2nd slide Data 🡪 explain the variables in the equation at the top.
7. If monetary policy is the main point of the paper, it needs to be said in the beginning, because for 55mins of the presentation it’s all about MPCs.
8. People seemed uneasy about the fact that the income distribution in Denmark is not very diverse.
   1. Duffee’s comment: the heterogeneity is not in income, it is in wealth.
9. 45 mins into the presentation you were at the 1st slide of Data.
10. 65 mins into the presentation you were at the 1st slide of Monetary Policy.

From Kevin:

* Carroll: say income and wealth
* Duffee: missing 4th group? Poor people vs rich people. Poor people who are not hand to mouth. Poor people who don’t borrow money? Wealthy relative to permanent income
  + Act homothetic
  + Real interest rate
* Carroll: MPC of Solow – 95%
* Duffee: graph – no reflection of transitory vs permanent
* Duffee: do those common assumptions make sense?
* Ball: hard to follow in words
* Salary adjusted mid point of year. Come up with example that gets you to -0.6
* Clarify continuous time model
* An example replace generic in the title
* Duffee Won’t remember notation – more blue terms
* Carroll: example of transitory shocks that last 1.5years
  + Extra over-time
  + Get sick
* Change to variance implication
  + Put last equation on top
* Duffee: we would like to know if you replace your assumptions with Bob Hall response
  + Where do you fit in? reduced form
  + Extended comment on BPP
* Ball: assume no idiosyncratic trends
* Duffee: Point 2 – stocks when up in value, quit job
* Carroll: waffle btw divide PI or not
* Duffee: also show plot when we normalize everything, if that picture different from that, then problem.
  + Don’t share the Results by Liquid Wealth picture
  + Show the other pictures
  + Not a lot of variation in income processes – permanent component
  + Volatility in transitory component?
  + Not much variance in income processes…have heterogeneity in how much you have in the bank
  + Wouldn’t have guessed that part!
* Welfare channels are important between variable and fixed rate mortgages
* Interaction between this and life-cycle models
* What dimension are they wealthy?
* Be precise btw liquid and illiquid
* Vadim: should be able to say something about home equity
* Duffee: x-axis not about floating rate but sorted on fixed rate exposure and you found same picture…story would be wrong…
  + Rate when up – borrow more interest
  + Carroll: x-axis – definition by how your mortgage changes
  + Value added is being able to construct horizontal access

From Tao:

Thanks for the presentation today. Here are a few thoughts I have had in class but did not have time to share with you.

1. I would suggest you to include one chart or table to give people an idea how big the permanent and transitory risks are in absolute and relative sense. This will probably help address some concerns regarding the specifics of income distribution in Denmark. My guess is even if the income is less unequal in Denmark, the estimated decomposed variance should not be too small. Would like to learn about your estimates.
2. Perfect income data. But to what extent the imputed consumption approach is robust?  I am not sure if you are aware of some research following BBP, i.e. Tullio Jappelli and Luigi Pistaferri(2010) in Economic Journal. They propose that the income risks and consumption insurance parameters could be separately identified using different datasets. In exchange, the analysis somehow boil down to cohort level instead of household level. This is fine to me for your purpose. It might be at best an alternative and at worst a robustness check.
3. I might have missed something. But I felt in the first part of presentation, your estimation do not justify the difference between wealthy hand-to-mouth and wealth.  This is in slight inconstancy with the second part.
4. What I did not fully understand even after your answer is that what exactly the relation between loading factor \psi and the g-function. If you assume \psi  is a constant, wouldn't your g be a linear function?

Hopefully these are helpful.  Would like to chat more about your research in future.

From Vadim:

Hey Edmund,  
  
Happy to chat at a time convenient for both of us. Your paper is in very good shape and you have great advising, so at this point I think you’ll want to pick my brain more on job market experience (went through it more recently than your committee).

In terms of what I was going to send to you, I think it was about connecting Auclert’s rate exposure measure to the “repricing gap” concept in (fairly old-fashioned) banking literature.

Banks’ repricing gap and monetary policy pass-through: <http://www.nber.org/papers/w18857>

Banks’ repricing gap and term premium: <http://faculty.haas.berkeley.edu/dsraer/draft_v1.pdf>

Other thing was imputing home equity using your data. Two ideas for getting the initial value of the house depending on which data you trust more:

1. You observe a drop in the liquid assets the year there’s a housing transaction. You can interpolate the household’s consumption in neighboring years to proxy for consumption that year and attribute other non-capital-gains change in the liquid assets to a down payment. If everyone put’s the same amount down governed by the LTV constraint (not sure about Denmark, but I once read a paper that asserted this about Netherlands), you just multiply by leverage.
2. You see the end-of-year mortgage balance, right? At the end of the first year of home ownership, this balance will be very close to the initial loan amount, since the first few months of amortized loan payments are almost all interest. If you know the month they bought the house, you could even impute the principal value using prevailing interest rates but that may be overkill. So again assuming the LTV constraint binds, you can back out initial home value.

Or if you trust both, get downpayment from 1, mortgage from 2, and add them up for home value. Now, you can apply regional house price appreciation from indices that surely are available for Denmark to estimate house values at the end of subsequent years. Since you have updated mortgage balances, you now can subtract them from your estimated house values to get home equity.

Since you threw out business owners, your liquid assets + home equity should really cover almost all of the household’s wealth, so you can plot those along with your MPXs like you did at the end of your talk, and also see if the “wealthy hand-to-mouth” is the right label for those lowest-URE guys or if they’re “medium wealth.”

Best,

Vadim