

# REGIONAL AGGREGATION II

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UCSD, Spring 2024

## REMINDERS

- ① First project draft due May 4.

# OUTLINE

- 1 INTRODUCTION
- 2 HAUSMAN, RHODE, AND WIELAND (2019, AER)
- 3 CHODOROW-REICH, GUREN, MCQUADE (2024, RESTUD)
- 4 MONDRAGON AND WIELAND (2022, WP)
- 5 ACOSTA, MUELLER, NAKAMURA, STEINSSON (2023, WP)

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## MONETARY TRANSMISSION MECHANISM

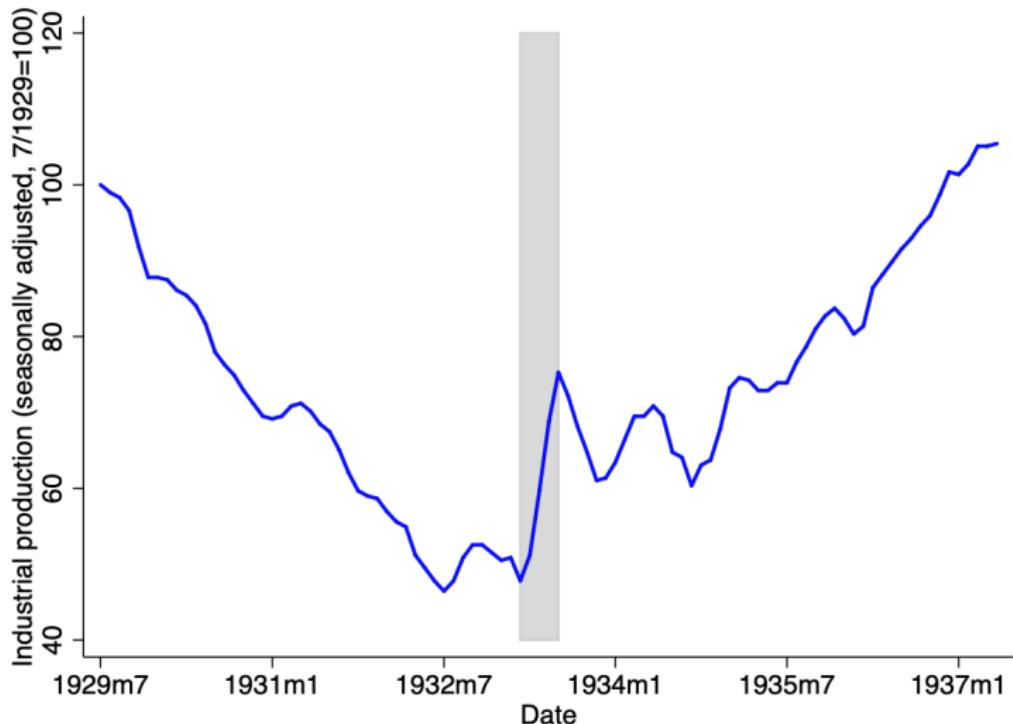
- Intertemporal substitution (changes in the real interest rate affect C and I).
- Credit channel: monetary changes affect spreads, ability of banks to make loans, etc. (Jiménez, Ongena, Peydró, and Saurina, AER 2012)
- Relaxing liquidity constraints for some households by raising income (Cloyne, Ferreira, and Surico, ReStud 2020).
- Redistribute income to high MPC consumers (Hausman, Rhode, and Wieland, AER 2019).
- Increases real money balances (Chodorow-Reich, Gopinath, Mishra, Narayanan, QJE 2019).

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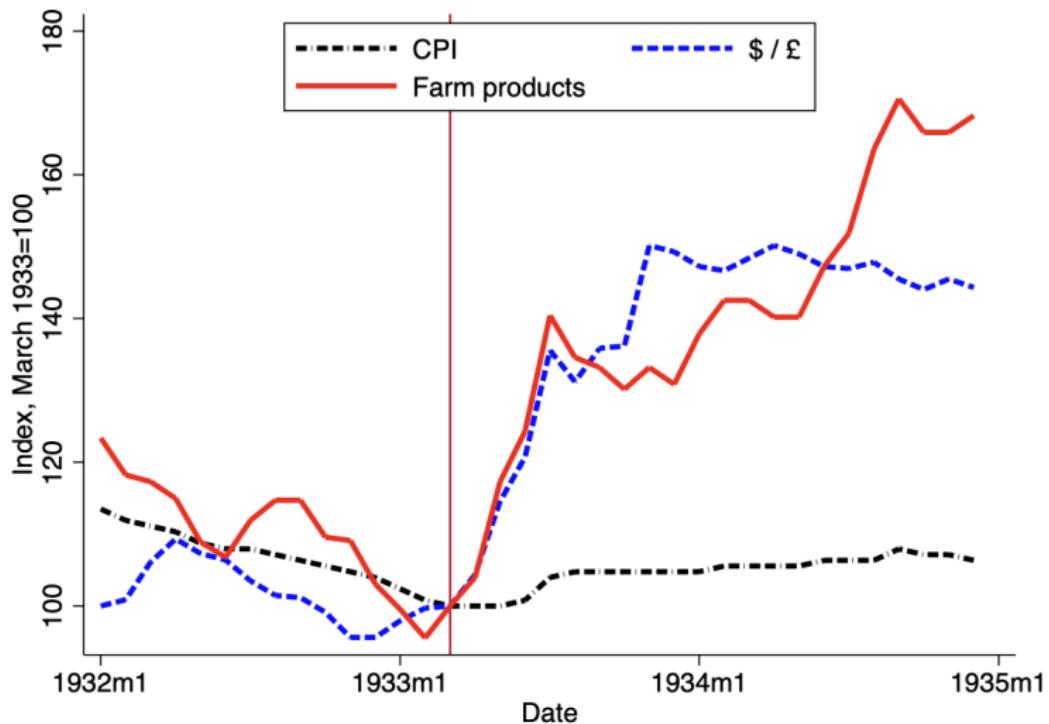
# RECOVERY FROM THE GREAT DEPRESSION

Figure 1 – Industrial production, 1929-1937



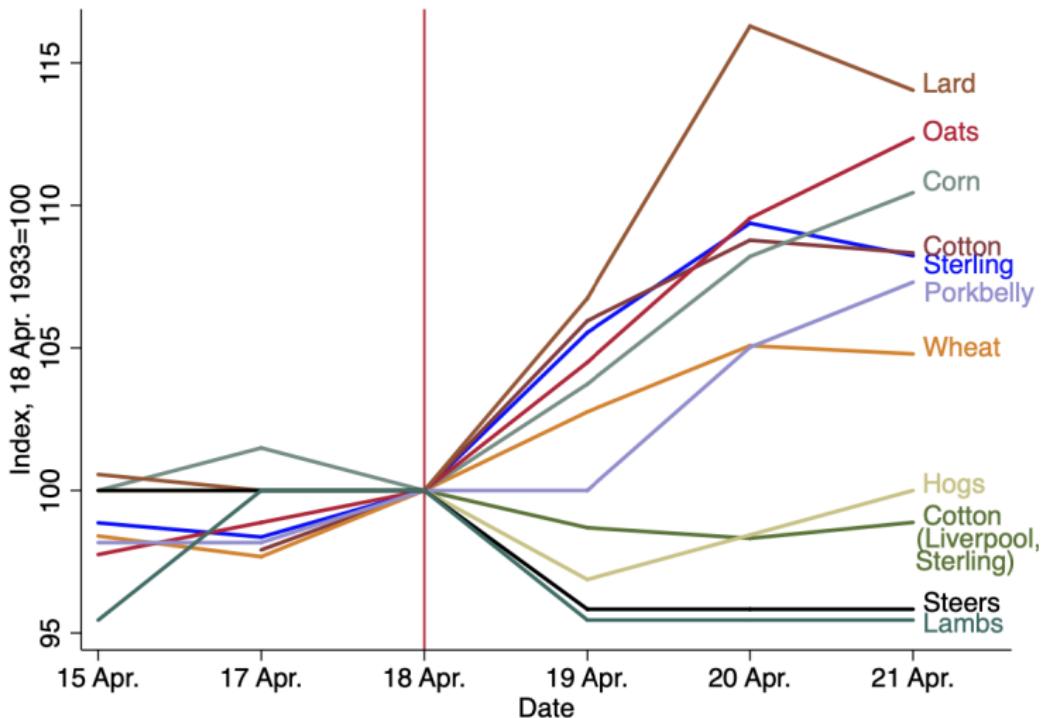
# LARGE DEVALUATION FROM LEAVING GOLD STANDARD

Figure 2 – The CPI, the exchange rate, and farm prices



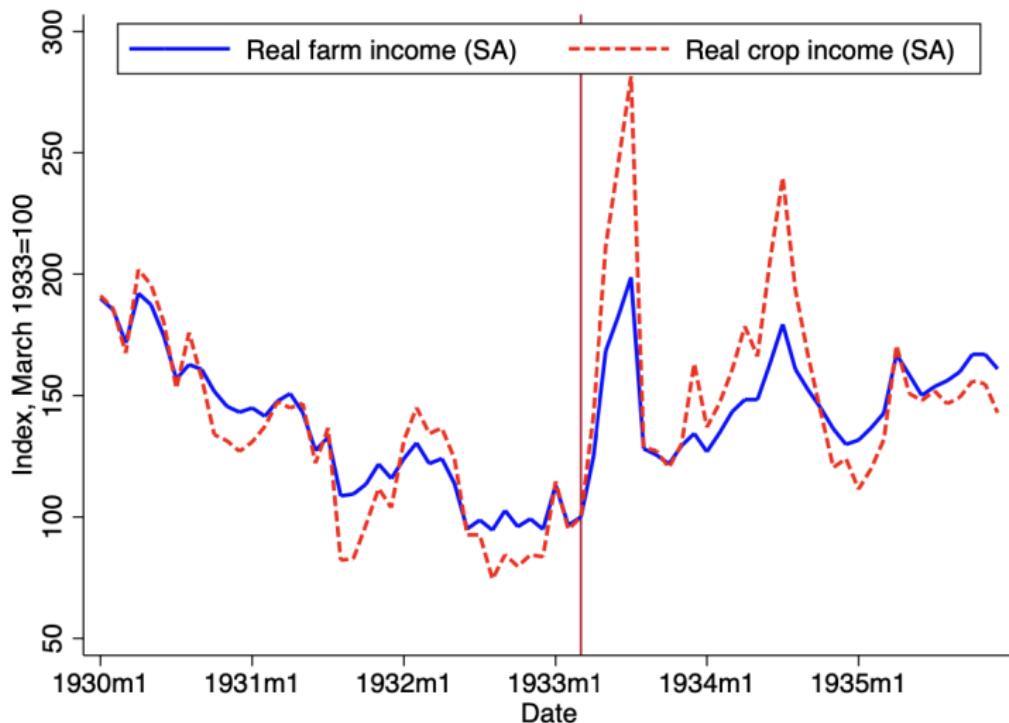
# TRADABLE PRICES ROSE

Figure 3 – The exchange rate and farm prices after devaluation



# FARM INCOMES ROSE

Figure 5 – Farm income



## SPECIFICATION

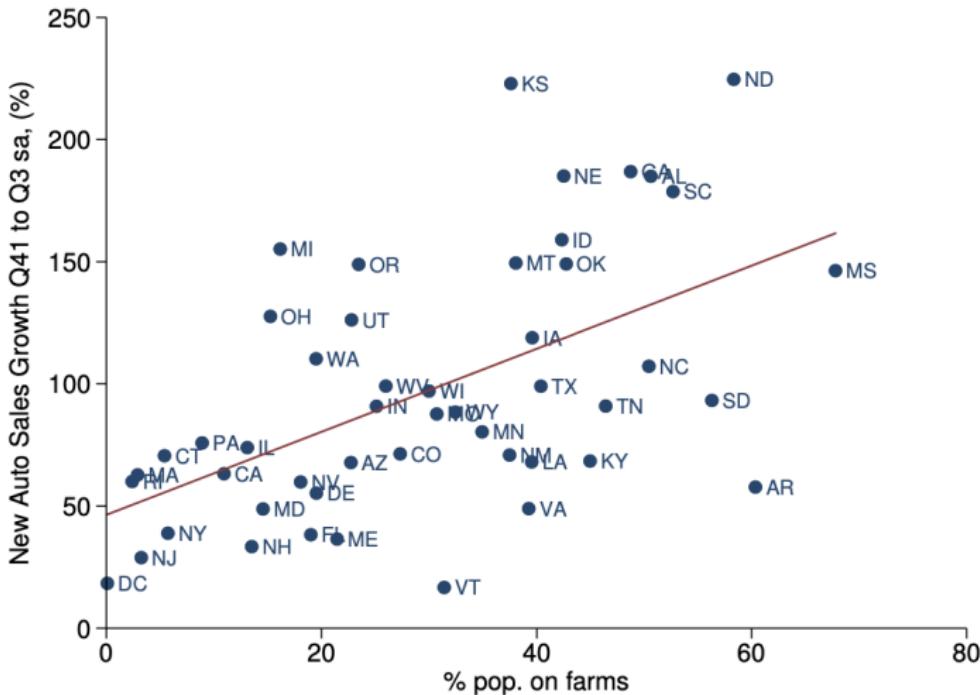
- Cross-sectional regression of the form:

$$\% \Delta \text{Auto sales}_{i, \text{Spring 1933}} = \beta_0 + \beta_1 \text{Agricultural exposure}_i + \gamma' X_i + \varepsilon_i$$

- What is the identifying assumption?
- Comments? Concerns?

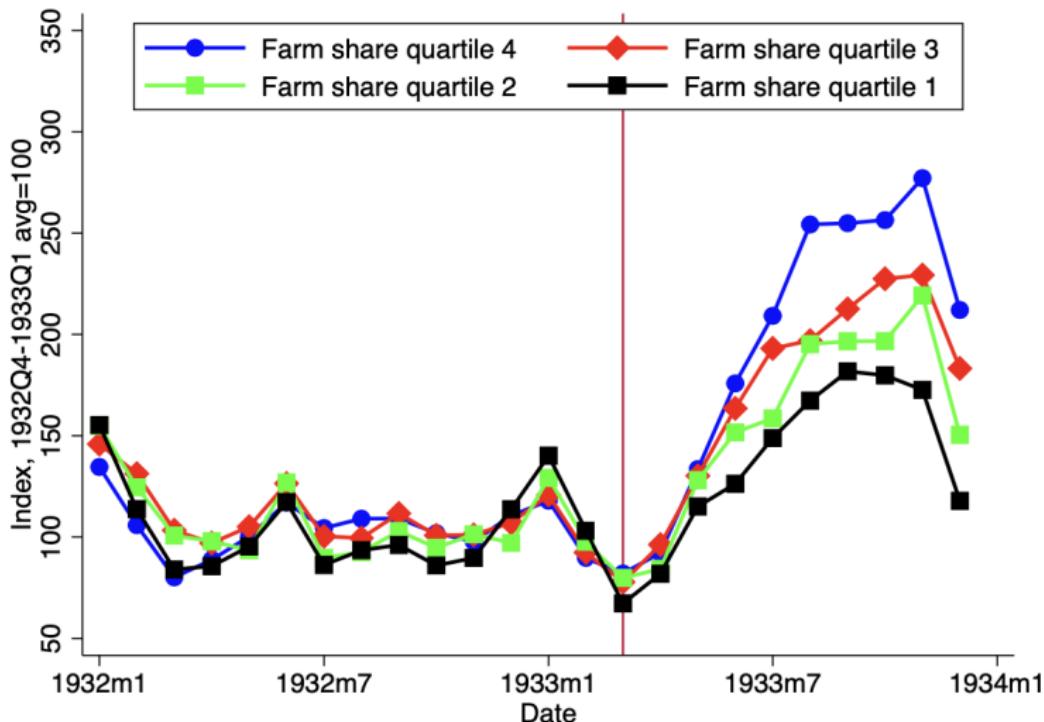
# FARM STATES GROW FASTER

Figure 6 – Percent change in car sales and farm channel exposure



## TEST FOR PRE-TRENDS

Figure 7 – Auto sales by farm share quartile



# COUNTY-LEVEL ANALYSIS

Table 3 – County New Auto Sales 1932-1933

| Dependent variable:                  | New auto sales growth (%) |                   |                    |                     |                     |                   |                    |                     |                    | Change p.c.       |  |
|--------------------------------------|---------------------------|-------------------|--------------------|---------------------|---------------------|-------------------|--------------------|---------------------|--------------------|-------------------|--|
|                                      | State                     |                   | County             |                     |                     |                   |                    |                     |                    |                   |  |
|                                      | Q41-Q3                    | 1932-33           | 1932-33            |                     |                     |                   |                    |                     |                    |                   |  |
|                                      | (1)                       | (2)               | (3)                | (4)                 | (5)                 | (6)               | (7)                | (8)                 | (9)                | (10)              |  |
| Right hand side variables (\$ p.c.): |                           |                   |                    |                     |                     |                   |                    |                     |                    |                   |  |
| Change farm product value            | 1.49**<br>(0.62)          | 1.99**<br>(0.93)  | 1.54***<br>(0.57)  | 1.49***<br>(0.42)   | 1.20***<br>(0.34)   | 0.84**<br>(0.38)  | 1.05***<br>(0.38)  | 0.92***<br>(0.34)   |                    | 5.30**<br>(2.34)  |  |
| Farm product value 1932              | -0.55<br>(0.42)           | -0.40**<br>(0.16) | -0.26**<br>(0.098) | -0.33***<br>(0.081) | -0.25***<br>(0.058) | -0.023<br>(0.034) | -0.16**<br>(0.061) | -0.16***<br>(0.058) |                    | -1.09**<br>(0.44) |  |
| AAA Transfers 1933                   |                           |                   |                    |                     | 3.26**<br>(1.61)    |                   | 2.66<br>(1.89)     |                     |                    |                   |  |
| Cotton, tobacco, and wool value 1932 |                           |                   |                    |                     |                     |                   |                    |                     | 2.33***<br>(0.23)  |                   |  |
| Corn, oats, and wheat value 1932     |                           |                   |                    |                     |                     |                   |                    |                     | 0.35**<br>(0.13)   |                   |  |
| Hay, potato, and fruit value 1932    |                           |                   |                    |                     |                     |                   |                    |                     | 0.14<br>(0.18)     |                   |  |
| Livestock value 1932                 |                           |                   |                    |                     |                     |                   |                    |                     | -0.11<br>(0.17)    |                   |  |
| Milk and egg value 1932              |                           |                   |                    |                     |                     |                   |                    |                     | -0.42***<br>(0.10) |                   |  |
| Control Variables                    | No                        | No                | No                 | Yes                 | Yes                 | No                | Yes                | Yes                 | No                 | No                |  |
| State Fixed Effects                  | No                        | No                | No                 | No                  | No                  | Yes               | Yes                | Yes                 | No                 | No                |  |
| Drought Interactions                 | No                        | No                | No                 | Yes                 | Yes                 | No                | Yes                | Yes                 | No                 | No                |  |
| R <sup>2</sup>                       | 0.27                      | 0.19              | 0.09               | 0.31                | 0.36                | 0.31              | 0.40               | 0.43                | 0.26               | 0.06              |  |
| Observations                         | 48                        | 48                | 2,100              | 2,079               | 2,079               | 2,100             | 2,079              | 2,079               | 2,100              | 2,093             |  |

# CONVINCING?

## AGGREGATE EFFECTS?

- Evidence is about *relative* changes in consumption expenditure.
- Three mechanisms by which it can be expansionary overall:
  - ① Redistribution to higher-MPC households.
  - ② Improves bank health.
  - ③ Raises inflation expectations.

## TESTING FOR DIFFERENTIAL MPCs

- Cross-sectional regression of the form:

$$\begin{aligned}\% \Delta \text{Auto sales}_{i, \text{Spring 1933}} = \\ \beta_0 + \beta_1 \Delta \text{farm product value}_i \times \% \text{farms mortgaged} + \\ + \beta_2 \text{farm product value}_i \times \% \text{farms mortgaged} \\ + \beta_3 \Delta \text{farm product value}_i + \beta_4 \% \text{farms mortgaged} \\ + \beta_5 \Delta \text{farm product value}_i + \gamma' X_i + \varepsilon_i\end{aligned}$$

- What is the identifying assumption?
- Comments? Concerns?

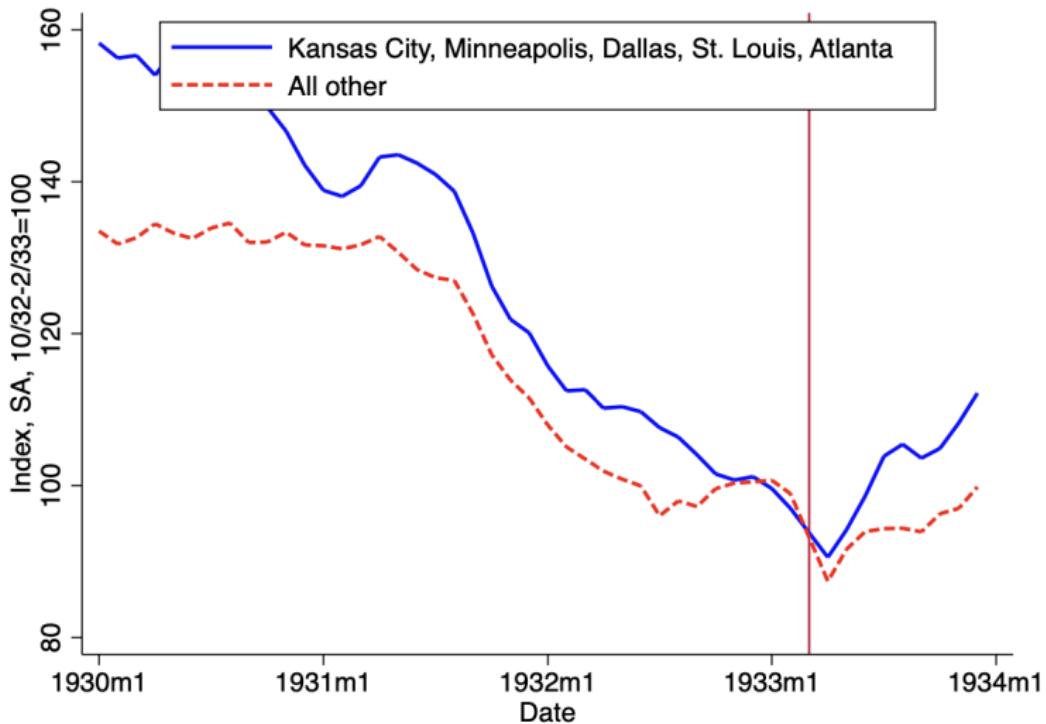
# DEBT-INTERACTION POSITIV

Table 5 – Auto sales growth in spring 1933 (% changes) and farm debt

| Panel A: Linear interaction with % farms mortgaged |        |         |        |         |
|--|--------|---------|--------|---------|
|  | (1)    | (2)     | (3)    | (4)     |
| Linear Interaction                                 | 0.37*  | 0.77*** | 0.57** | 0.72*** |
|  | (0.19) | (0.24)  | (0.23) | (0.24)  |
| Change farm product value p.c. (\$)                | 1.39** | 0.089   | 0.49   | 0.018   |
|  | (0.61) | (0.50)  | (0.52) | (0.51)  |
| State Fixed Effects                                | No     | Yes     | No     | Yes     |
| Control Variables                                  | No     | No      | Yes    | Yes     |
| Drought Interactions                               | Yes    | Yes     | Yes    | Yes     |
| R <sup>2</sup>                                     | 0.23   | 0.40    | 0.37   | 0.44    |
| Observations                                       | 2,094  | 2,094   | 2,073  | 2,073   |

# DIFFERENTIAL DEPOSIT GROWTH

Figure 12 – Net demand deposits, 1930-33



# INFLATION EXPECTATIONS?

## Tire Prices Going Higher Buy Now! Save Money! *Equip with* **Firestone**

TIRE prices have joined the upward trend. We believe they will advance again—in fact, increasing prices of rubber and cotton are sure to bring higher tire prices. Get your tire requirements NOW while we are selling Firestone *Extra Quality* Tires at these low prices. BUY TODAY! SAVE MONEY!

(b) Tires



# AGGREGATION

- Simple framework to examine how cross-sectional estimates map to the aggregate economy.
- Model has heterogeneity on the following three dimensions:
  - ▶ Income from farming, labor, or pricing power.
  - ▶ Permanent income vs hand-to-mouth.
  - ▶ Farm vs urban area.
- Simplifications:
  - ▶ Model essentially static.
  - ▶ Exogenous relative price movements.
- Who looked at the appendix?

# KEY RESULT

$$\% \Delta \text{Cars} = \underbrace{\beta \times \phi^f}_{\text{"naive" extrapolation}} \times \frac{\text{Farm area income per capita}}{\underbrace{\text{National income per capita}}_{\text{Relative income p.c.}}} \\ \times \underbrace{\left(1 - \xi \frac{\theta^w}{\theta^f}\right)}_{\text{Redistribution from high-MPC consumers}} \times \underbrace{\mu_t}_{\text{Aggregate spending multiplier}} \\ + \underbrace{-\sigma d \ln(1 + r_t)}_{\text{Intertemporal Substitution}}$$

- Comments? Concerns?

# AGGREGATE EFFECT OF FARM CHANNEL

Table 7 – Implied aggregate effect

| Redistribution from high<br>MPC consumers, $\xi \frac{\theta^w}{\theta^f}$ | Predicted %ΔCars     |           |           | Fraction of actual %ΔCars |           |           |
|--|----------------------|-----------|-----------|---------------------------|-----------|-----------|
|  | Aggregate Multiplier |           |           | Aggregate Multiplier      |           |           |
|  | $\mu = 1$            | $\mu = 2$ | $\mu = 3$ | $\mu = 1$                 | $\mu = 2$ | $\mu = 3$ |
| 0.7  | 8.0                  | 15.9      | 23.9      | 9.2                       | 18.4      | 27.6      |
| 0.6  | 10.6                 | 21.2      | 31.9      | 12.3                      | 24.6      | 36.8      |
| 0.5  | 13.3                 | 26.6      | 39.8      | 15.4                      | 30.7      | 46.1      |
| 0.4  | 15.9                 | 31.9      | 47.8      | 18.4                      | 36.8      | 55.3      |
| 0.3  | 18.6                 | 37.2      | 55.8      | 21.5                      | 43.0      | 64.5      |

Notes: Columns 2-4 display the implied new car sales growth rate from equation (8) given the indicated parameter values, and  $\beta = 1.7$ ,  $\phi^f = 0.248$ ,  $\frac{Y_{p.c..a}}{Y_{p.c.}} = 0.63$ . Columns 5-7 show the fraction of actual new car sales growth (86.5%) explained.

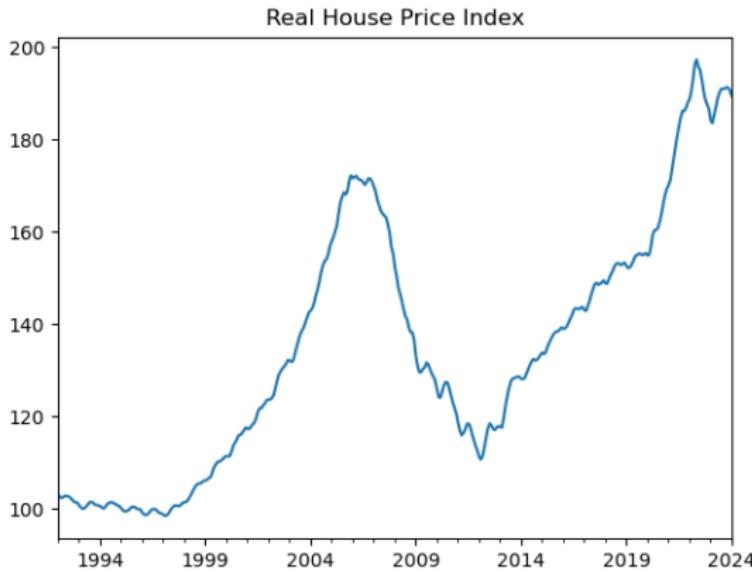
- Thoughts? Comments?

# CONVINCING?

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# HOUSING

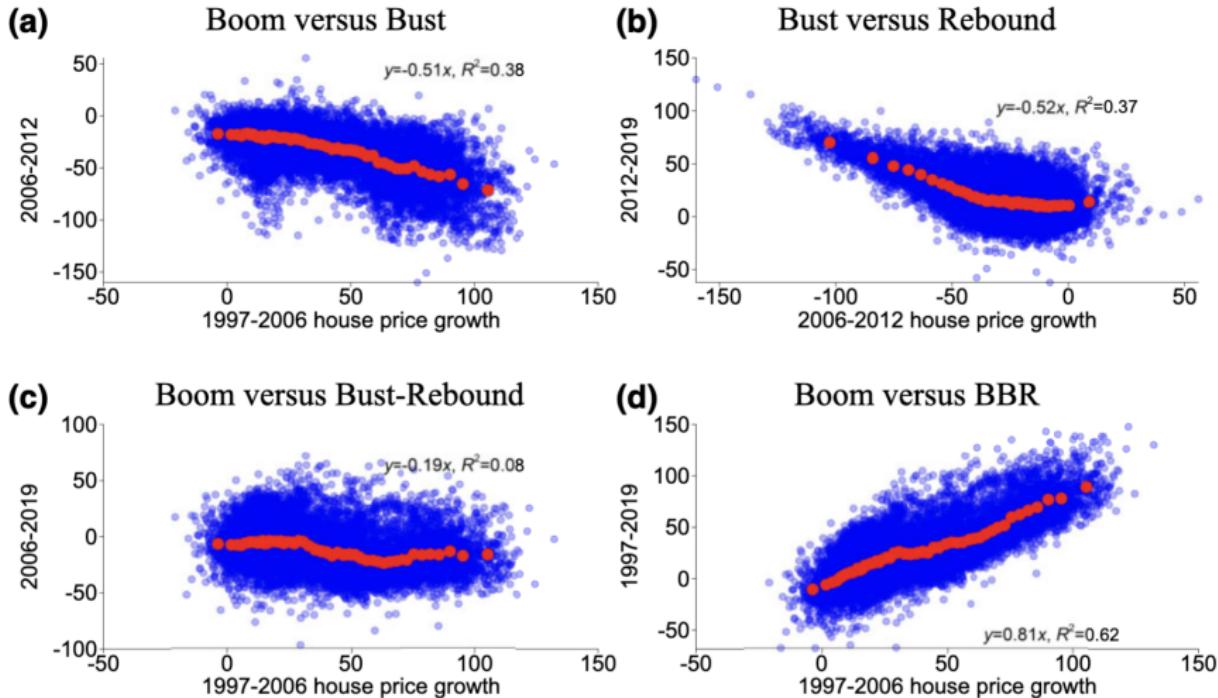


- Bubble or Fundamentals? If fundamentals, demand or supply? (What is a fundamental?)

# CHODOROW-REICH, GUREN, MCQUADE (2024, RESTUD)

- ① Document boom-bust-rebound.
- ② Fundamentals explain cross-city variation in long-run house price growth.
- ③ Model that generates boom-bust-rebound from single fundamental shock with endogenous belief overreaction.

# BOOM, BUST, AND REBOUND



# FRAMEWORK FOR LONG-RUN FUNDAMENTALS

- Good practice: write down the DGP.
- LR supply block:

$$P_{it} = C_{it} + L_{it}$$

$$C_{it} = A_{it} H_{it}^{\alpha_i}$$

$$L_{it} = B_{it} H_{it}^{\beta_i}$$

$A, B$  are cost shifters independent of population.

- LR demand block:

$$\frac{\dot{H}_{it}}{H_{it}} = G_i \left( \frac{V_{it}}{P_{it}} \right) V_{it} = E_t \int_t^\infty e^{-\rho s} D_{is} ds$$

## DERIVING LR SUPPLY

- Taking log differences with  $s_{it}$  as the land share in  $P$ :

$$\Delta p_{it} = \Delta a_{it} + s_{i,t-1}(\Delta b_{it} - \Delta a_{it}) + (\alpha_i + s_{i,t-1}(\beta_i - \alpha_i))h_{it}$$

- Parameterize:

$$\alpha_i = \alpha_0 + \alpha_1 m_i$$

$$\beta_i = \beta_0 + \beta_1 m_i$$

$$\Delta b_{it} = b\Delta u_{it} + \Delta \bar{b}_t + \Delta \hat{b}_{it}$$

$$\varepsilon_{it} = \Delta \hat{a}_{it} + s_{i,t-1}\Delta(\hat{b}_{it} - \Delta \hat{a}_{it})$$

To get

$$\begin{aligned}\Delta p_{it} = & \Delta \bar{a}_t + s_{i,t-1}(\Delta \bar{b}_t - \Delta \bar{a}_t) + \alpha_0 \Delta h_{it} + (\beta_0 - \alpha_0)s_{i,t-1}\Delta h_{it} \\ & + \alpha_1 m_i \Delta h_{it} + (\beta_1 - \alpha_1)m_i s_{i,t-1}\Delta h_{it} + s_{i,t-1}b\Delta u_{it} + \varepsilon_{it}\end{aligned}$$

- This becomes the regression equation

$$\begin{aligned}\Delta p_{it} = & c_0 + s_{i,t-1}(\Delta \bar{b}_t - \Delta \bar{a}_t) + \alpha_0 \Delta h_{it} + (\beta_0 - \alpha_0)s_{i,t-1}\Delta h_{it} \\ & + \alpha_1 m_i \Delta h_{it} + (\beta_1 - \alpha_1)m_i s_{i,t-1}\Delta h_{it} + s_{i,t-1}b\Delta u_{it} + \varepsilon_{it}\end{aligned}$$

## ESTIMATING LR SUPPLY

- This becomes the regression equation

$$\begin{aligned}\Delta p_{it} = & c_0 + c_1 s_i + c_2 \Delta h_{it} + c_3 s_i \Delta h_{it} \\ & + c_4 m_i \Delta h_{it} + c_5 m_i s_{i,t-1} \Delta h_{it} + c_6 s_i \Delta u_{it} + \varepsilon_{it}\end{aligned}$$

(where are the  $t$  subscripts on the coefficients?)

- Can we estimate this supply equation using OLS?

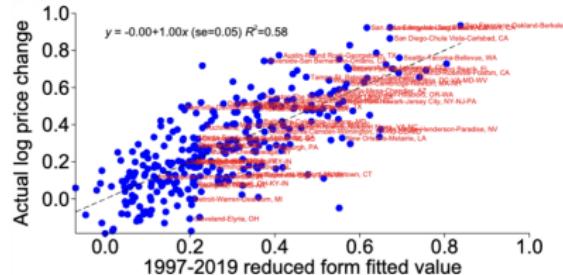
# INSTRUMENTS

- Endogenous variables:
  - ▶ Population growth  $\Delta h_{it}$
  - ▶ Land share  $s_i$
  - ▶ Regulatory strictness  $m_i$
  - ▶ Urbanization  $\Delta u_{it}$
- Instruments:
  - ▶ Shift-share of employment growth and wage growth.
  - ▶ January temperature and sunlight, July humidity.
  - ▶ Share of employment in restaurants in 1997.
  - ▶ Fraction of land available for development and 1997 population density.
  - ▶ Ratio of public expenditure on protective inspection to total tax revenue in 1992, and share of Christians in non-traditional denominations in 1990.
  - ▶ The interaction of the pre-boom (1990) share of college workers in the CBSA and pre-boom urban amenities; the interaction of the pre-boom relative likelihood of living downtown for college and non-college residents and the predicted change in the CBSA college share using a Bartik shift-share.
- Thoughts? Comments?

# REDUCED FORM

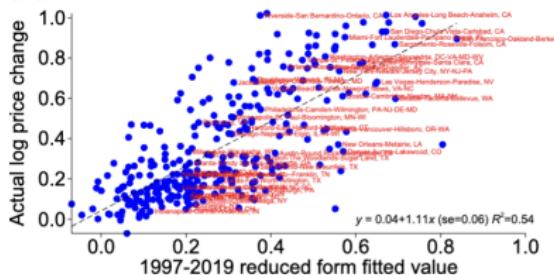
(a)

BBR: 1997–2019



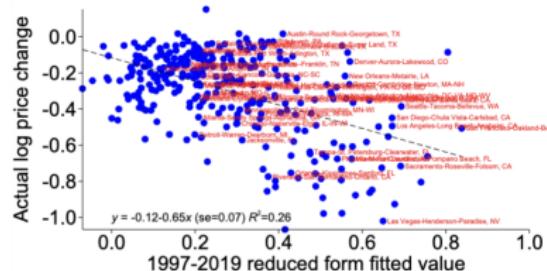
(b)

Boom: 1997–2006



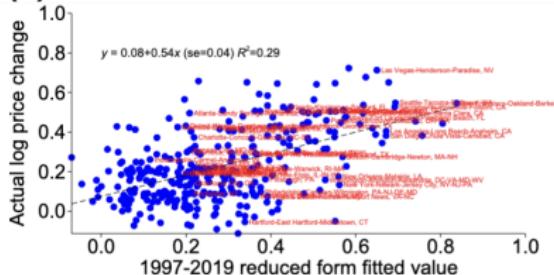
(c)

Bust: 2006–2012



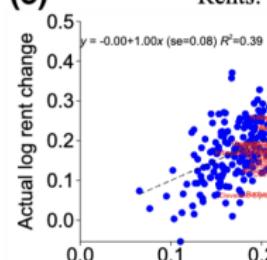
(d)

Rebound: 2012–2019



(e)

Rents: 2000–2019



## IV

 TABLE 1  
*Long-run OLS and IV results*

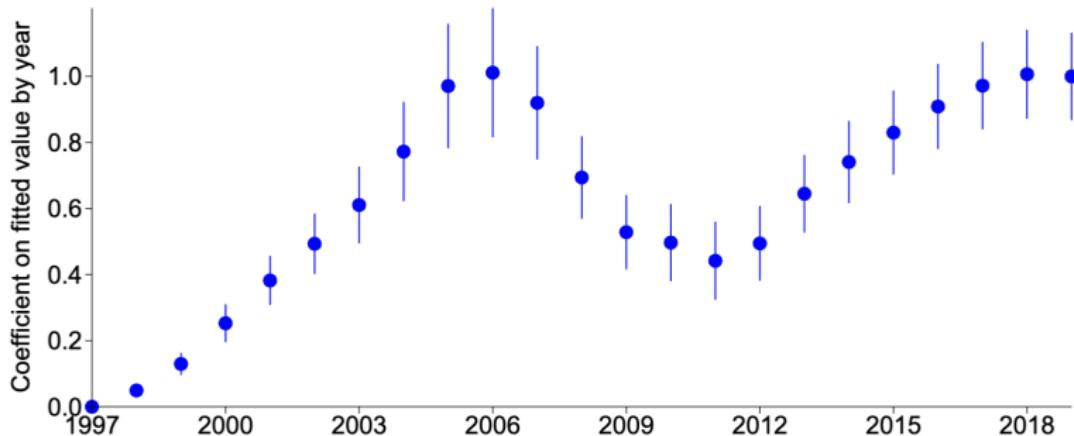
| Dep. var.:                         | House price growth 1997–2019 |                  |                  | Rent growth 2000–19 |
|------------------------------------|------------------------------|------------------|------------------|---------------------|
|                                    | (1)                          | (2)              | (3)              | (4)                 |
| Land share                         | 0.64**<br>(0.24)             | 0.91*<br>(0.37)  | 0.78**<br>(0.20) | 0.17*<br>(0.08)     |
| Units growth                       | 0.34<br>(0.26)               | 0.81<br>(0.49)   | 0.63**<br>(0.10) | 0.16**<br>(0.04)    |
| Land share × Units growth          | 0.72<br>(0.92)               | -0.64<br>(1.63)  |                  |                     |
| WRLURI × Units growth              | -0.01<br>(0.12)              | 0.32<br>(0.23)   |                  |                     |
| Land share × WRLURI × Units growth | 0.79*<br>(0.37)              | 0.34<br>(0.75)   | 1.30**<br>(0.28) | 0.34**<br>(0.11)    |
| Land share × Urbanization          | 1.22**<br>(0.19)             | 1.42**<br>(0.37) | 1.40**<br>(0.38) | 0.40**<br>(0.14)    |
| Constant                           | -0.05<br>(0.06)              | -0.13<br>(0.11)  | -0.11+<br>(0.06) | 0.11**<br>(0.02)    |
| Estimator                          | OLS                          | 2sls             | 2sls             | 2sls                |
| Elasticity at $\bar{s}_j$          | 0.54                         | 0.63             | 0.63             |                     |
| Standard error of elasticity       | 0.26                         | 0.50             | 0.10             |                     |
| $R^2$                              | 0.49                         | 0.43             | 0.45             | 0.17                |
| Observations                       | 308                          | 308              | 308              | 272                 |

*Notes:* The table reports OLS (column 1) and IV (columns 2–4) regressions of real CBSA house price growth over 1997–2019 or rent growth over 2000–10 on land share, housing unit growth over 1997–2019, their interactions with WRLURI and each other, and the interaction of land share and the change in the downtown price premium, as in equation (8). The standard error of the elasticity at the mean of land share is computed using the delta method. Heteroskedastic-robust 29/52

# LOADING ON FUNDAMENTAL

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REVIEW OF ECONOMIC STUDIES



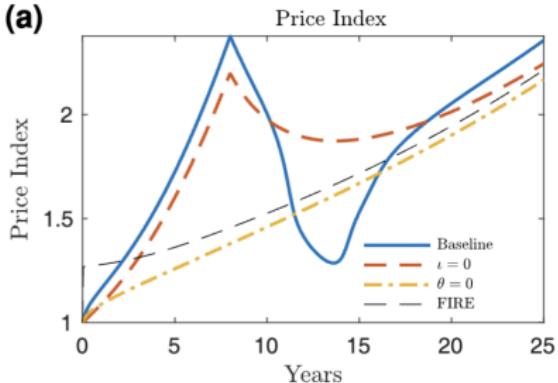
- What do we learn?

# MODEL

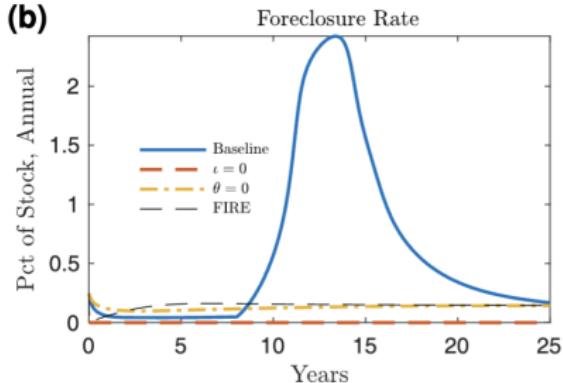
- What is the purpose of the model?
- What do we learn from the model that we do not learn from the empirics?
- How well does the paper address the premise: fundamentals or bubbles?

# MODEL

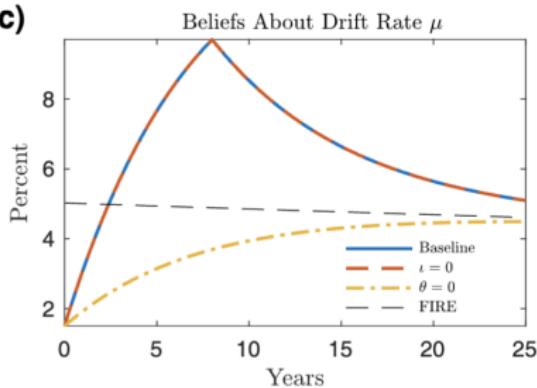
(a)



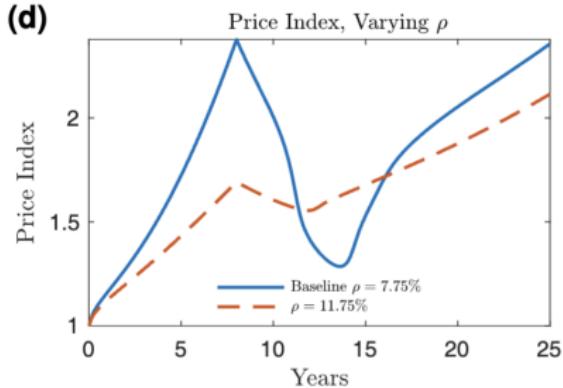
(b)



(c)



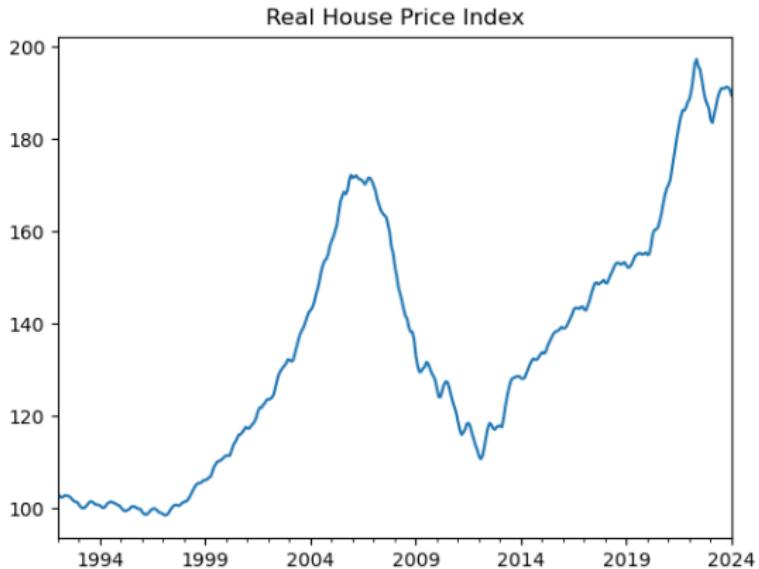
(d)



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# PANDEMIC HOUSING MARKET



## EMPIRICAL STRATEGY

- Baseline regression:

$$\text{Remote Work 2020}_i = \kappa + X'_i \theta + \gamma \text{Remote Work 2015-19}_i + \zeta_i$$

$$\text{House Price Growth}_i = \alpha + X'_i \delta + \beta \widehat{\text{Remote Work 2020}}_i + \zeta_i$$

- What problem does the instrument solve?
- What problems does the instrument not solve?

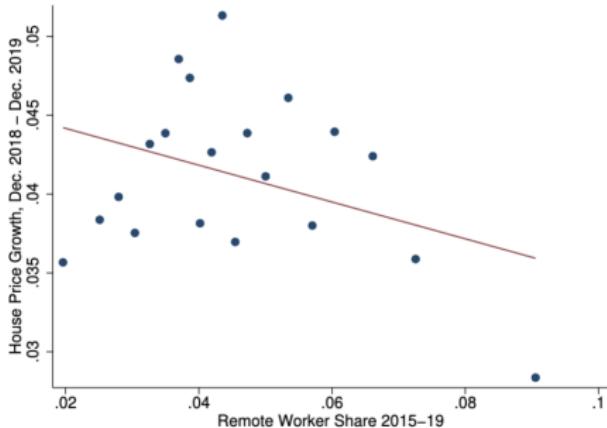
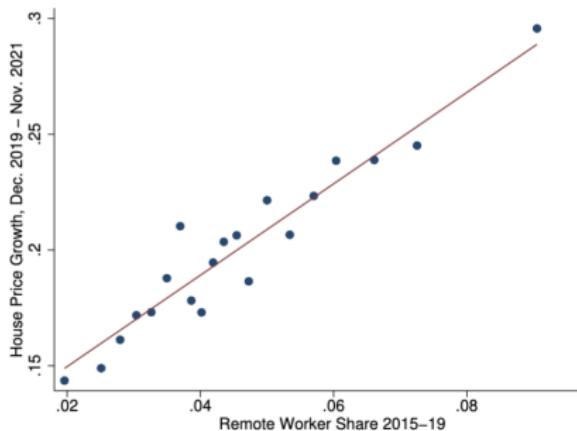
# INSTRUMENT VARIATION

TABLE 2  
SOURCES OF PRE-PANDEMIC REMOTE WORK VARIATION

| Dependent Variable:                   | Remote Worker Share 2015-19 |
|---------------------------------------|-----------------------------|
|                                       | (1)                         |
| RHS variables:                        |                             |
| Predicted Remote Worker Share 2015-19 | 1.81***<br>(0.19)           |
| Share College                         | 0.036<br>(0.026)            |
| Log Median Income                     | 0.0046<br>(0.0049)          |
| Unemp. Rate 2019                      | -0.019<br>(0.045)           |
| Wage Growth Pre-Pandemic              | -0.0075<br>(0.015)          |
| Total Dividends / AGI                 | 0.046**<br>(0.022)          |
| Log Density                           | -0.00087<br>(0.00072)       |
| Share 65+                             | 0.084***<br>(0.021)         |
| January Temperature                   | 0.00037***<br>(0.000092)    |
| July Temperature                      | -0.00068***<br>(0.00014)    |
| July Humidity                         | -0.00019**<br>(0.000073)    |
| Race Controls                         | Yes                         |
| CBSA Clusters                         | 50                          |

# REDUCED FORM

A. House Price Growth from Dec. 2019 - Nov. 2021      B. House Price Growth from Dec. 2018 - Dec. 2019



- Concerns?

# IV

| Dependent Variable:           | House Price Growth, Dec. 2019 - Nov. 2021 |                   |                   |                   |                   |                   |                   |                   |
|-------------------------------|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                               | OLS                                       |                   |                   |                   | IV                |                   |                   |                   |
|                               | (1)                                       | (2)               | (3)               | (4)               | (5)               | (6)               | (7)               | (8)               |
| <b>RHS variables:</b>         |   |                   |                   |                   |                   |                   |                   |                   |
| Remote Worker Share 2015-19   | 1.97***<br>(0.31)                         | 2.05***<br>(0.29) | 2.08***<br>(0.26) | 1.98***<br>(0.24) | 1.14***<br>(0.17) | 1.20***<br>(0.16) | 1.30***<br>(0.16) | 1.37***<br>(0.16) |
| Remote Worker Share 2020      |   |                   |                   |                   |                   |                   |                   |                   |
| HP Growth Pre-Pandemic        | 0.62**<br>(0.24)                          | 0.78***<br>(0.22) | 0.74***<br>(0.22) |                   | 0.87***<br>(0.22) | 0.89***<br>(0.23) | 0.83***<br>(0.22) |                   |
| Nonparametric Density Control | No  | No                | Yes               | Yes               | No                | No                | Yes               | Yes               |
| Demographic Controls          | No  | No                | Yes               | Yes               | No                | No                | Yes               | Yes               |
| Wage & Unemployment Controls  | No  | No                | No                | Yes               | No                | No                | No                | Yes               |
| Stock Exposure Control        | No  | No                | No                | Yes               | No                | No                | No                | Yes               |
| F-Statistic                   |   |                   |                   |                   | 248.11            | 222.47            | 356.56            | 346.96            |
| CBSA Clusters                 | 50  | 50                | 50                | 50                | 50                | 50                | 50                | 50                |
| $R^2$                         | 0.17                                      | 0.20              | 0.34              | 0.39              | 0.11              | 0.15              | 0.19              | 0.23              |
| Observations                  | 895                                       | 895               | 895               | 895               | 895               | 895               | 895               | 895               |

- Concerns?

# OTHER OUTCOMES

TABLE 5  
EFFECT OF REMOTE WORK ON BROADER OUTCOMES, DEC. 2019 - Nov. 2021

|   | Coeff.  | S.E.   | F-Stat | N   |
|---|---------|--------|--------|-----|
| <i>Residential Rent</i>                   |         |        |        |     |
| (1) Rent Growth                           | 1.09*** | (0.33) | 120.7  | 178 |
| (2) House Price Growth (Rent Sample)      | 1.03*** | (0.28) | 133.2  | 178 |
| <i>Commercial Rent (Reduced Form)</i>     |         |        |        |     |
| (3) Commercial Rent Growth                | -0.26*  | (0.13) |        | 25  |
| (4) House Price Growth (Com. Rent Sample) | 2.37*** | (0.65) |        | 25  |
| <i>Local Inflation (Reduced Form)</i>     |         |        |        |     |
| (5) Inflation excl. Shelter               | 0.44    | (0.33) |        | 22  |
| (6) House Price Growth (Inflation Sample) | 2.98*** | (0.70) |        | 22  |
| <i>Housing Supply</i>                     |         |        |        |     |
| (7) Permit Growth                         | 2.03**  | (0.91) | 352.1  | 714 |
| (8) Growth of Cumulative Homes Sold       | -0.16   | (0.35) | 260.8  | 544 |

- Concerns?

# WHY CONTROL FOR MIGRATION?

| Dependent Variable:             | House Price Growth, Dec. 2019 - Nov. 2021 |                   |                   |                   |                   |                   |                   |                   |
|---------------------------------|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
|                                 | OLS                                       |                   |                   |                   | IV                |                   |                   |                   |
|                                 | (1)                                       | (2)               | (3)               | (4)               | (5)               | (6)               | (7)               | (8)               |
| RHS variables:                  |   |                   |                   |                   |                   |                   |                   |                   |
| Remote Worker Share 2015-19     | 1.31***<br>(0.23)                         | 1.38***<br>(0.23) | 1.47***<br>(0.17) | 1.43***<br>(0.15) | 0.73***<br>(0.11) | 0.78***<br>(0.11) | 1.00***<br>(0.11) | 0.98***<br>(0.11) |
| Remote Worker Share 2020        |   |                   |                   |                   | 0.53***<br>(0.18) | 0.55***<br>(0.17) | 0.52***<br>(0.16) |                   |
| HP Growth Pre-Pandemic          |   | 0.38*<br>(0.20)   | 0.49***<br>(0.16) | 0.46***<br>(0.16) |                   |                   |                   |                   |
| Net Inflow Rate Pandemic        | 1.16***<br>(0.24)                         | 1.12***<br>(0.22) | 1.06***<br>(0.24) |                   | 1.29***<br>(0.22) | 1.25***<br>(0.20) | 1.15***<br>(0.22) |                   |
| Net Inflow Rate Pre-Pandemic    | 0.93***<br>(0.27)                         | 0.84***<br>(0.26) | 0.81***<br>(0.23) |                   | 0.88***<br>(0.25) | 0.74***<br>(0.25) | 0.71***<br>(0.22) |                   |
| Nonparametric Density Control   | No  | No                | Yes               | Yes               | No                | No                | Yes               | Yes               |
| Demographic Controls            | No  | No                | Yes               | Yes               | No                | No                | Yes               | Yes               |
| Wage & Unemployment Controls    | No  | No                | Yes               | Yes               | No                | No                | Yes               | Yes               |
| Stock Exposure Control          | No  | No                | Yes               | Yes               | No                | No                | Yes               | Yes               |
| Nonparametric Migration Control | No  | No                | No                | Yes               | No                | No                | No                | Yes               |
| F-Statistic                     |   |                   |                   |                   | 220.19            | 211.26            | 297.60            | 300.62            |
| CBSA Clusters                   | 50  | 50                | 50                | 50                | 50                | 50                | 50                | 50                |
| R <sup>2</sup>                  | 0.33                                      | 0.34              | 0.50              | 0.53              | 0.37              | 0.39              | 0.44              | 0.47              |
| Observations                    | 895                                       | 895               | 895               | 895               | 895               | 895               | 895               | 895               |

# MODEL

- What is the purpose of the model?
- What do we learn from the model that we do not learn from the empirics?
- What did you think of the model structure?

# OUTLINE

- 1 INTRODUCTION
- 2 HAUSMAN, RHODE, AND WIELAND (2019, AER)
- 3 CHODOROW-REICH, GUREN, MCQUADE (2024, RESTUD)
- 4 MONDRAGON AND WIELAND (2022, WP)
- 5 ACOSTA, MUELLER, NAKAMURA, STEINSSON (2023, WP)

## UNEMPLOYMENT BENEFIT EXTENSIONS

- What is the effect of extending unemployment benefits?
- Popular tool during recessions. Benefits extended in 2008, 2020 from 26 to 99 weeks.
- What is the effect on employment?
- Most of the existing work focusses on Great Recession.
- This paper: all recessions since 1973-5.

# VARIATION (1)

Table 1: Trigger Rules for the Extended Benefits Program

| Rule Type                        | Rule Description  | Effective Years      |
|----------------------------------|---|----------------------|
| 13 Weeks                         |   |                      |
| Mandatory                        | IUR MA $\geq$ 4% and IUR Lookback $\geq$ 120%                               | 1970–1971, 1981–1982 |
| Mandatory                        | (IUR MA $\geq$ 4% and IUR Lookback $\geq$ 120%) or National IUR $\geq$ 4.5% | 1972–1981            |
| Optional                         | IUR MA $\geq$ 5%  | 1976–1982            |
| Mandatory                        | IUR MA $\geq$ 5% and IUR Lookback $\geq$ 120%                               | 1982–                |
| Optional                         | IUR MA $\geq$ 6%  | 1982–                |
| Optional                         | IUR MA $\geq$ 5% and 3-year IUR Lookback $\geq$ 120%                        | 2011–2013            |
| Optional                         | TUR MA $\geq$ 6.5% and 1- or 2-year TUR Lookback $\geq$ 110%                | 1993–                |
| Optional                         | TUR MA $\geq$ 6.5% and 1-, 2-, or 3-year TUR Lookback $\geq$ 110%           | 2011–2013            |
| 7 Additional Weeks               |   |                      |
| Optional                         | TUR MA $\geq$ 8.0% and 1- or 2-year TUR Lookback $\geq$ 110%                | 1993–                |
| Optional                         | TUR MA $\geq$ 8.0% and 1-, 2-, or 3-year TUR Lookback $\geq$ 110%           | 2011–2013            |
| Interactions with other Programs |   |                      |
| Optional*                        | FSB only triggered if EB triggered  | 1975–1978            |
| Optional*                        | States that recently triggered EB also triggered FSC early on               | 1982–1983            |
| Optional*                        | Triggering EB also triggered TEUC benefits                                  | 2002–2004            |

- Why distinguish between optional and mandatory extensions?
- What is valid variation?

## VARIATION (2)

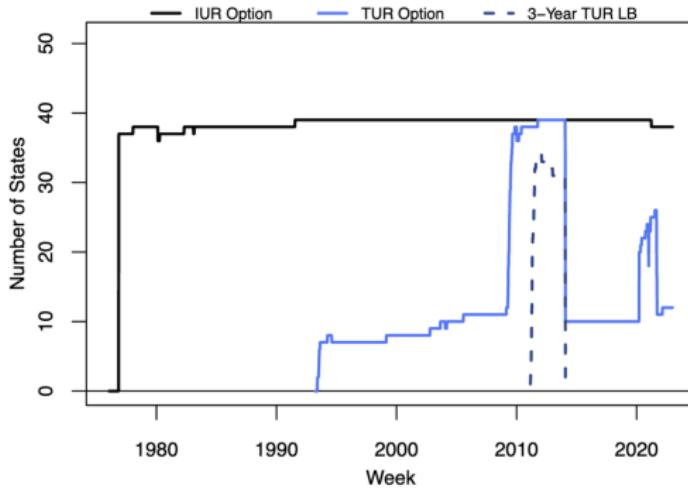


Figure 2: Changes in Option Status

- What is the source of the variation?

## VARIATION (3)

Table 2: Sources of Changes in Trigger Rules

| Description       | Optional Rules |     |            |       |         |
|-------------------|----------------|-----|------------|-------|---------|
|                   | TUR            | IUR | TUR 3-Y LB | Total | Percent |
| Federal Funding   | 104            | 0   | 68         | 172   | 85      |
| ARRA (2009)       | 51             | 0   | 68         | 119   | 59      |
| General (2009+)   | 22             | 0   | 0          | 22    | 11      |
| Fam. First (2020) | 29             | 0   | 0          | 29    | 14      |
| TELIC (2003)      | 2              | 0   | 0          | 2     | 1       |
| Reagan Reforms    | 0              | 6   | 0          | 6     | 3       |
| Option Creation   | 7              | 0   | 0          | 7     | 3       |
| Discretionary     | 8              | 9   | 0          | 17    | 8       |
| Total             | 119            | 15  | 68         | 202   | 100     |

- How does this help the identification argument?
- What are threats to identification?

# VARIATION (4)

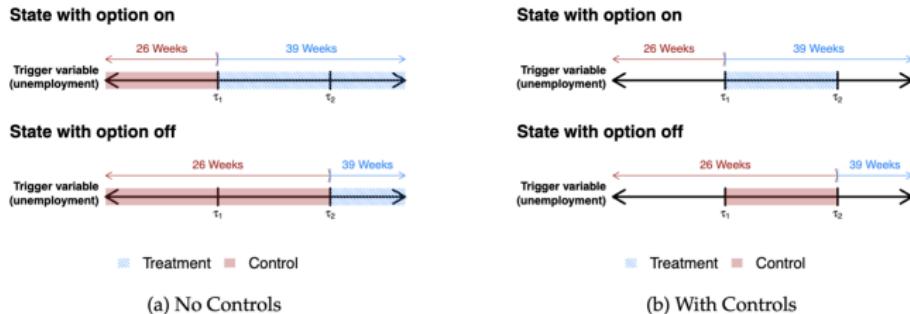


Figure 3: Illustration of Identification

- Concerns?

## VARIATION (5)

*We compare states that qualify for the same trigger rules but have adopted different trigger rules. Under the assumption that historical option adoption is orthogonal to current economic conditions, this isolates the variation in UI extensions that is not due to variation in economic conditions.*

# EMPIRICAL STRATEGY

- Estimation equation:

$$y_{s,t+h} = \beta_h \widehat{W}_{s,t} + \text{qual. controls}_{h,s,t} + \delta_{h,s} + \Gamma' x_{h,s,t} + \varepsilon_{h,s,t}$$

- $s$  is state,  $t$  is week,  $h$  is horizon.
- $\widehat{W}_{s,t}$  is the difference between actual potential benefit duration and counterfactual potential benefit duration if the state had adopted no options.
- qual. controls $_{h,s,t} = \sum_{z,t} \alpha_{z,h,t} I_s(z, t)$  are the qualifying controls.
  - $I_s(z, t) = 1$  if state  $s$  is in risk set  $z$  at time  $t$ .

Table 4: Determinants of Risk Sets

|                      | IUR Option | TUR Option | 3-Year TUR Lookback Option |
|----------------------|------------|------------|----------------------------|
| 13-Week EB Tier      | ✓          | ✓          | ✓                          |
| 20-Week EB Tier      |            | ✓          | ✓                          |
| FSC "Reachback" Tier | ✓          |            |                            |
| FSC Tier II          | ✓          |            |                            |
| TEUC "X" Tier        |            | ✓          |                            |

# EMPIRICAL STRATEGY

- The risk sets for a given point in time are all the possible subsets of the set of options and associated benefit levels that were available at that time (including the empty set, i.e., no options).

Table 4: Determinants of Risk Sets

|                      | IUR Option | TUR Option | 3-Year TUR Lookback Option |
|----------------------|------------|------------|----------------------------|
| 13-Week EB Tier      | ✓          | ✓          | ✓                          |
| 20-Week EB Tier      |            | ✓          | ✓                          |
| FSC "Reachback" Tier | ✓          |            |                            |
| FSC Tier II          | ✓          |            |                            |
| TEUC "X" Tier        |            | ✓          |                            |

# TREATMENT EFFECT

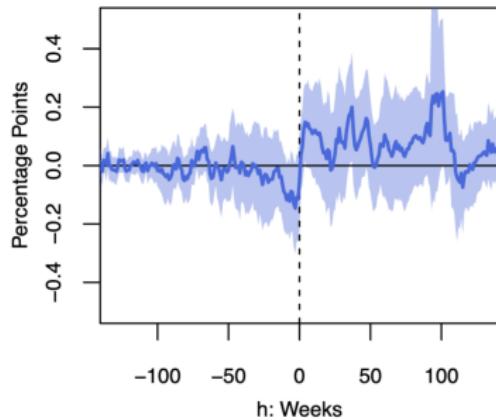
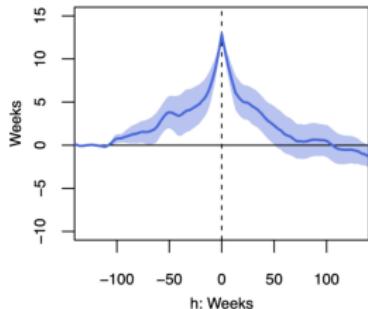


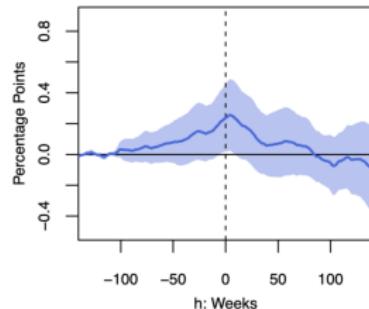
Figure 5: Effect of  $\Delta \widehat{W}_{s,t}$  on Insured Unemployment Rate

- Concerns?

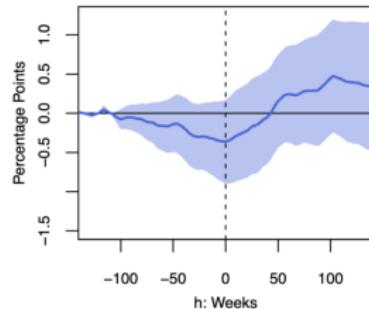
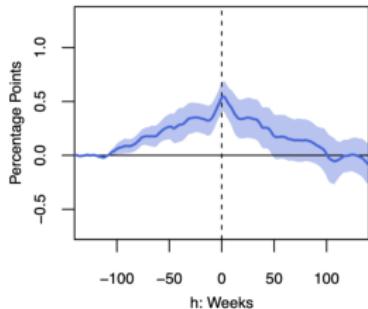
# TREATMENT EFFECT



(a) Potential Benefit Duration

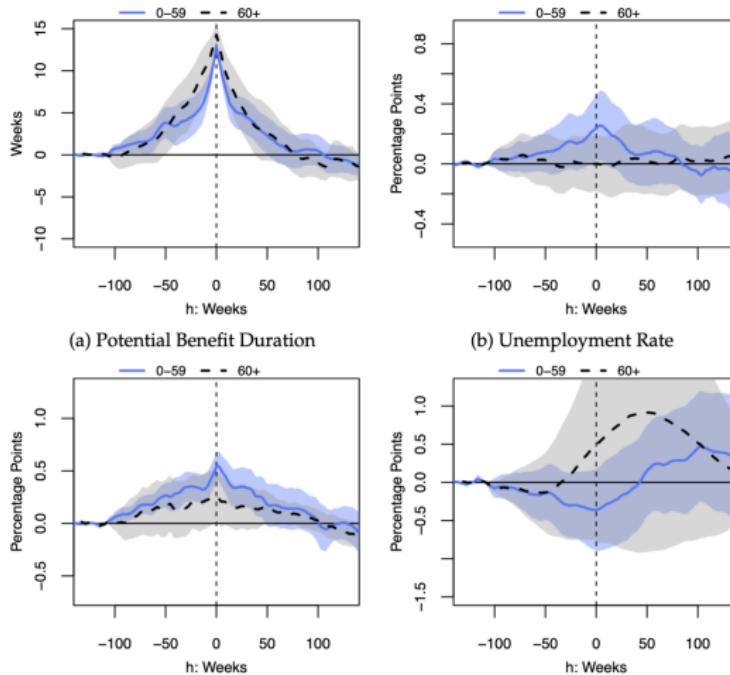


(b) Unemployment Rate



- Concerns?

# HETEROGENEOUS TREATMENT EFFECT



- Concerns?

# MODEL

- What is the purpose of the model?
- What do we learn from the model that we do not learn from the empirics?
- What did you think of the model structure?