

COMMENTS ON
"IN SEARCH OF BETTER MODELS OF THE
ECONOMY"
PAUL RAUWOLF & MICHAEL KUMHOF

Kurt Mitman

IIES, Stockholm University and CEPR

In Search of Smart, Sustained and Inclusive Growth
Stockholm School of Economics

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- ▶ How should governments and central banks design macroprudential policies to minimize the risk of financial crises?

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- ▶ **We can do better.**

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- ▶ The key idea:
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 - ▶ Will require a combination of empirically motivated frictions: incomplete markets, unemployment risk, search in the housing market, default on debt
 - ▶ Allow for departures from full information rational expectations at the household level.

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- ▶ Particularly important for policy counterfactuals - how much of the answer is already assumed?

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- ▶ ABM and HAM converging...and both stand to gain from learning from each other!