Discussion on Durable Goods, Borrowing Constraints, and Consumption Insurance by Cerletti and Pijoan-Mas

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Comment

- I have only one comment.

Josep asked me to do this.
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This paper should get published in a top journal!
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Josep asked me to do this.
1. Do the workhorse incomplete-market models generate degree of (self-)insurance consistent with data?

2. Blundell-Pistaferri-Preston (BPP, in the data):
   - 64% of permanent income shocks are transmitted to $C$.
   - 5% of transitory income shocks are transmitted to $C$.

3. Kaplan-Violante (KV, in their baseline SIM model):
   - 93% of permanent income shocks are transmitted to $C$.
   - 18% of transitory income shocks are transmitted to $C$.

4. What can help us bring the model closer to data?
What Does This Paper Do?

- Extend the KV model by introducing **durable goods**.
- Study role of durable goods, interacting with **borrowing constraints**.

**Findings:**

1. Optimal rebalancing between $D$ and $C$ generates the dispersion between the degree of insurance and the transmission coefficients.

2. Without borrowing constraints, adding $D$ does not change the transmission coefficient for $C$ generated by the model.

3. With borrowing constraints, the transmission coefficient for $C$ against transitory income shocks is lower.

4. With borrowing constraints, the transmission coefficient for $C$ against permanent income shocks is higher!

5. Quantitatively: small (1-2 percentage points).
Random Comments

1. It is a very clean paper.

2. Does the rebalancing mechanism exist in the data?
   - Compute the transmission coefficients for $C$ and $D$ from data.
   - Compare two countries with different tightness of the borrowing constraint.

3. What are the durable goods?
   - Is this a model of automobiles? Or books?
   - Why not housing?

4. Size of debt? Life-cycle models tend to generate too much debt.

5. Other candidates?
   - Lumpy durable goods?
   - Maintenance decision?
   - Labor-leisure choice?
   - Intra-household insurance?