Discussion of

Stock Market Bubbles and Unemployment

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Summary of Paper

- **Motivation**
  - Link b/w financial mkt bubbles/fluctuations and labor mkt movements.
- **They do**
  - Build search model of the labor market with credit constraints that generates stock market bubbles.
- **They show**
  - Model with perfect credit markets is isomorphic to standard model
  - Possible multiple equilibria with imperfect credit markets
    - Bubbleless economy:
      - Pessimistic beliefs → Low value of firms → Low investment/hiring
    - Bubbly economy:
      - Optimistic beliefs → High value of firms → HIgh investment/hiring
  - Policy Experiments:
    - Higher unemployment benefits and hiring subsidies generate more and less severe recessions, respectively.

Comments

- Very nice paper on interesting topic.
- Well written and provides good intuition for the results.

- Comments:
  - Hiring vs job finding rate
  - Time formulation of the model
  - Parameters in numerical exercises
  - Policy experiments
  - Other examples

Hires Rate and Job Finding Rate

- Hires Rate:
  - Def: h = H/E
- Job Finding Rate
  - Def: jfr = H/U
- Why separate both? What do we learn from having both that we don't learn just by looking at the jfr?
  - In the data they seem to move very similar
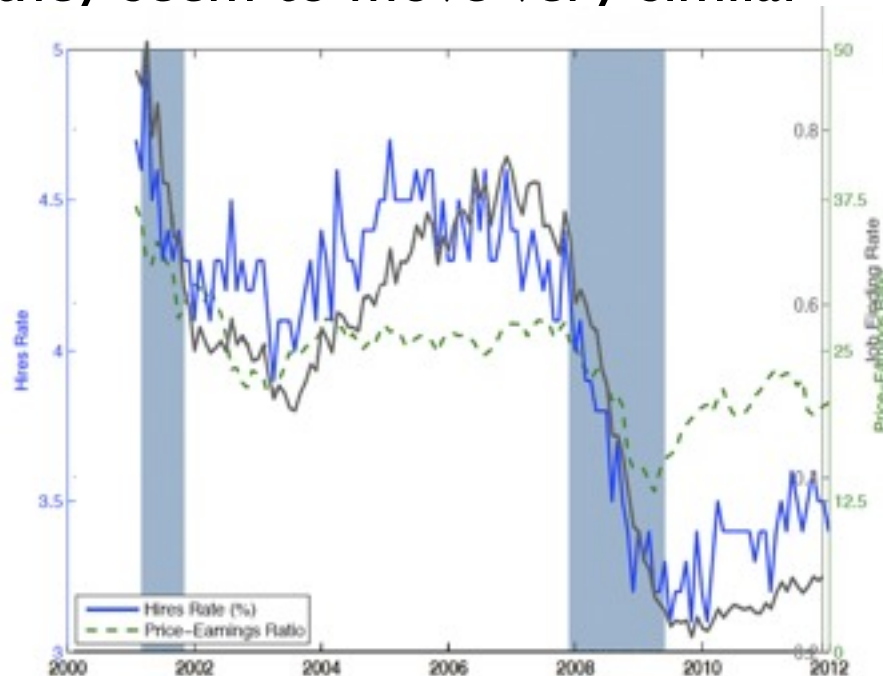
Hires Rate and Job Finding Rate

- Hires Rate:
  - Def: $h = H/E$
- Job Finding Rate
  - Def: $jfr = H/U$
- Why separate both? What do we learn from having both that we don't learn just by looking at the jfr?
- Does the model reproduce their behavior? They seem to move very close together in the data, but no so much in the simulations - Different definitions?
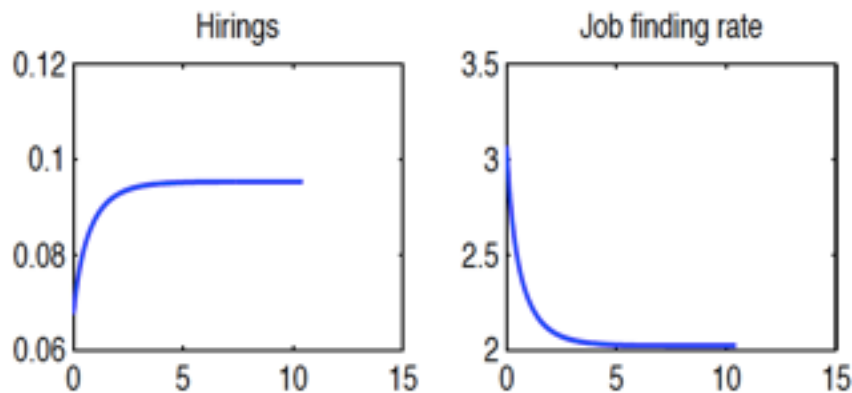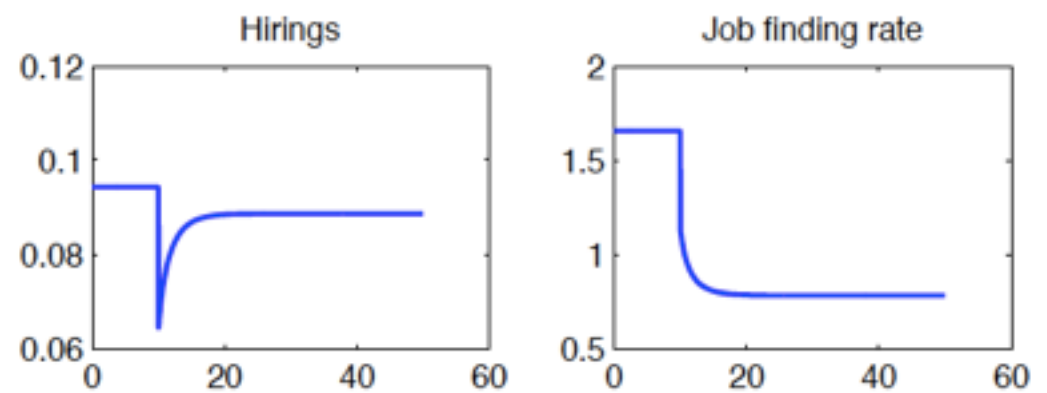
Figure 7 - Bubbly Economy

Figure 10 - Stochastic Bubbles

Model's Time Formulation

- Continuous-time model.
- But, most derivations are discrete-time approximations.
- The paper bounces back and forth between continuous and discrete time equations.
- It would clearer if only one formulation was used.
- Why not use discrete time as in Blanchard and Gali (2010)?

Parameter Values

- Numerical solutions are used to solve the transition dynamics.
- How are the parameters chosen?

  $s=0.1$, $\pi=0.02$, $\kappa=0.1$, $\eta=0.5$, $\psi = 0.04$, $\alpha=1$, $c=0.4$, $A=1$, and $\xi=0.9$.

- How sure can we be of the results?
- Are the results qualitatively the same for a wide range of parameter values?

Policy experiments

- Higher unemployment benefits produce more severe recessions.
- Higher hiring subsidies generate less severe recessions.

- This is what would be expected from the standard model.
  - What do we learn from these experiments?

- Are the numbers is these results meaningful?
  - We don't know how the parameters are chosen.

Other examples

- Motivation of the paper is about US Great Recession.
- Other countries and instances are also related to the topic:
  - Japan:
    - Great stock market crash in the early 1990s
    - Dramatic changes in unemployment, job separation and finding rates.

Conclusions

- Nice paper with good model and interesting results.
- Possible improvements:
  - Streamline the derivations: either continuous or discrete time.
  - Provide justification for parameter values.
  - Think about need of policy experiments.