Credit Frictions, Housing Prices, and Optimal Monetary Policy Rules

By Caterina Mendicino and Andrea Pescatori

Discussant: Virginia Queijo von Heideken

Riksbanken

Bank of Finland
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Main question

- Optimal monetary policy under credit market frictions

  How should monetary policy react to house prices?

- Important question….in particular nowadays

Main contribution

- Welfare evaluation
- Includes both lenders and borrowers
  Wealth redistribution
- Careful economic interpretation

Main limitation...

- No financial stability aspect

  As the rest of the literature

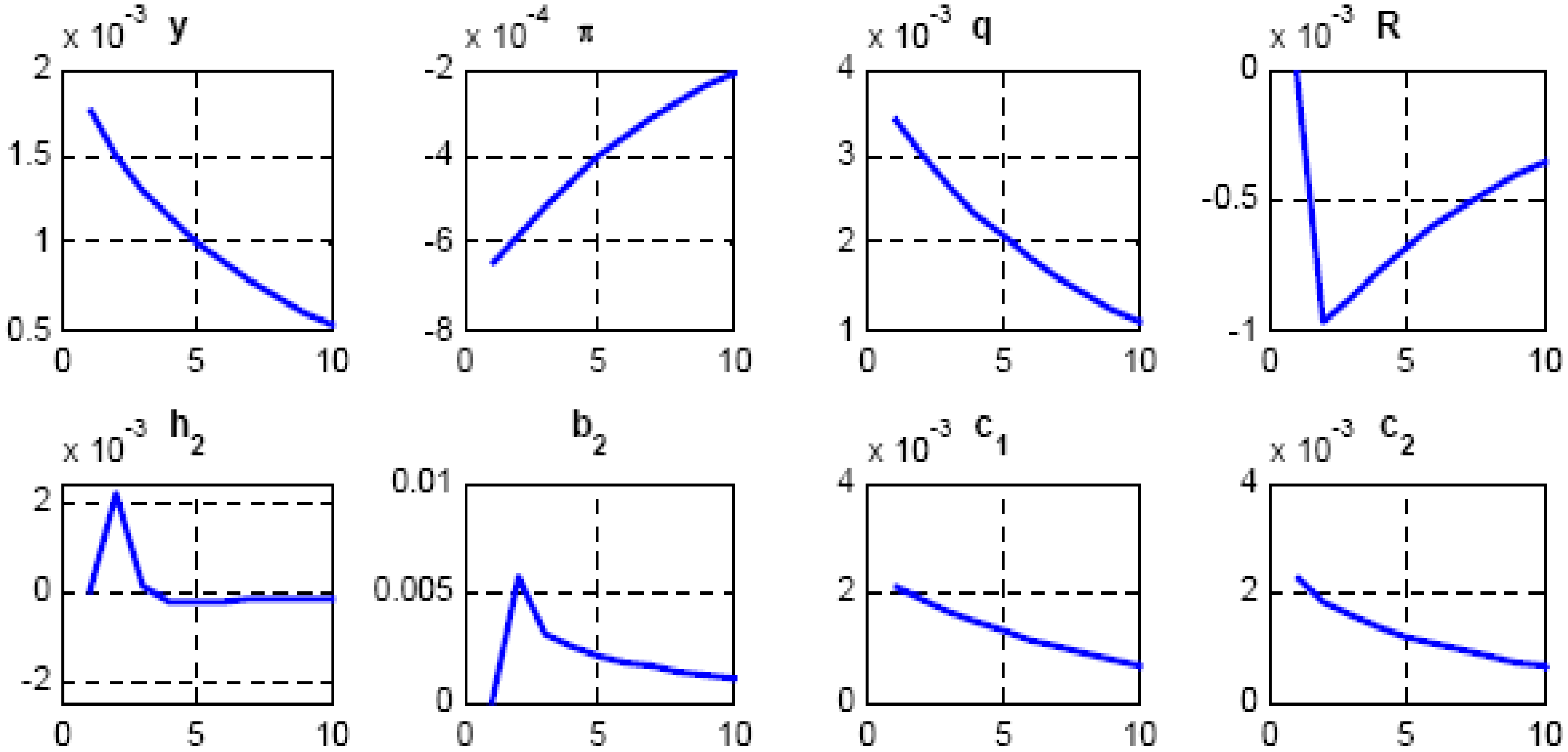
In this paper

- Patient and impatient households
- Loan-to-value shocks
- Sticky prices
- 2nd order approximation

Main results

- Optimal policy: positive to inflation, mute to output and interest rate smoothing and negative response to house prices

Technology



$$b_{it} \leq \gamma_t E_t \frac{q_{t+1}\pi_{t+1}h_{it}}{R_t} \quad .$$

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- Asymmetric dynamics

  MP amplifies positive shocks and dampens negative shocks

Some remarks

- House prices or house price inflation?

  Bernanke and Gertler look at returns

- Agents can not switch categories: borrowers vs. lenders

- Indeterminate equilibrium

  Including house prices reduce determinate region

  Lubik and Schorfheide (JEDC 2003) linear model

Possible extensions

- Capital (entrepreneurs)
- Housing investment

Conclusions

- Good timing for the paper
- Interesting new results

  Asymmetries was my favorite!
- Serious approach to welfare evaluation