Discussion of:
Identifying the Macroeconomic Effects of Bank Lending Supply Shocks
Basset, Chosak, Driscoll, Zakrajsek

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Disclaimer

- My views, not those of Federal Reserve Bank of Cleveland or Board of Governors of the Federal Reserve System.
Paper highlights

- Individual Bank SLOOS responses
- Match with bank specific data
  - Real Panel data!

- Put shocks into VAR-X for macro effects
Some context

- Quantities don’t work in credit view
  - Ramey 1993
- Use spreads
  - Bernanke Gertler and Gilchrist (1999)
- In VAR-X
  - Lending shocks matter
  - Does Quantity? Spread?
Some criticisms

- Is Average of residuals best way to get aggregate shock?
  - Composition effects?

- Only two recessions

- “large and middle market firms,” “small firms” or both?
Senior Loan Officer Survey: Supply and Demand of C&I Loans to Domestic Medium and Large Firms

Respondents reporting stronger demand

Respondents reporting a tightening of standards

Source: Board of Governors
Some more criticisms

- VAR slightly non-standard
- Usually include commodity prices
  - To remove price paradox
- Any effect?
- ?
What’s in the VAR can matter, 1
What’s in the VAR can matter 2
Alternative approaches

- Asea and Blomberg (1998)
  - Standards on 2 million individual loans
  - From STBL

- Regime switching, Simultaneous equation with unemployment
  - Identify via lags

- Asymmetric effect:
  - Easy lending in good times
Future work? Can this data identify sources of exogenous lending shocks?

- Azariadis & Smith (1998): multiple equilibria
- Berger & Udell (1994): regulatory changes
- Rajan (1994): reputation competition
- Gorton & He (2008): collusion breakdown
A philosophical conclusion

- Identify shocks
- But also find transmission channels