Discussion of "Why Have Interest Rates Fallen far Below the Return on Capital"

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Banca d'Italia

September 28, 2017

Recap

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Stylized Facts

- Risk-less interest rate below return on capital in Euro Area
  - Real interest rate on clear declining trend in the past 20 years
  - Aggregate return to capital instead stationary
- Have we run out of productive investment opportunities?

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What the Paper Does

- Provide model-based quantitative evaluation of different drivers
  - Demographic pressure on savings
  - Slower pace of productivity growth
  - Fall in price of investment
  - Deleveraging
  - Increase in risk perception

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- Measure aggregate return on capital using national accounts
- Calibrate a 3 period OLG economy that includes
  - Risk-less financial market
    - Demographics
    - Borrowing constraints
  - Risky capital market
  - Exogenous productivity growth
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What We Learn

- Observable factors cannot explain stylized facts
  - Higher population growth
  - Slower pace of productivity growth
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- Replicating stylized facts requires:
  - Increased risk perception (main driver)
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- Confirms stylized facts for EA
- Tractability in the model
  - Mechanisms very clear
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- On the measurement of the return to capital
  - What about changing income shares?
  - What about return to managerial ability?
- What about heterogeneous returns to capital / ability?
  - Different investment opportunities?
  - SCF instead of NIPA?

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