Discussion of "Asset Purchases and Heterogeneous Beliefs" by Gaetano Gaballo and Carlo Galli

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what the paper does

- studies how asset purchases (APs) affect asset prices in markets with **heterogeneous beliefs** and **learning from prices**
- model where rational investors observe **noisy private signals** about bond payoffs and infer information from market price (aggregates beliefs)
  - position limits (incomplete markets)
  - **learning from prices** $\Rightarrow$ wedge between asset price and fundamentals
  - *core mechanism*: APs change price informativeness, thereby affecting wedge
- theory of how APs alter price informativeness, market outcomes, balance sheet implications

main results and contribution

1. **non-monotonic price effect on APs**: small APs raise asset prices, larger APs decrease prices
2. **central bank losses** $\Rightarrow$ implicit fiscal transfers to govt (issuer)
3. **learning-from-prices externality** amplifies market reactions
4. **price-targeting APs** reduce price informativeness and removes wedge but increase cost due to more frequent purchases

paper provides microfoundation for AP policy, highlights purely informational foundation for AP effectiveness

outline of main comments

1. empirical relevance of mechanism
2. robustness to alternative signal structures, distributions
3. monetary-fiscal interactions
4. extension to dynamic, multi-period setting

comment 1: empirical relevance of mechanism

- core mechanism: price-fundamental wedge due to learning
  - can wedge be measured in practice?
  - if not, useful to quantify wedge and what this means for observables

- evidence that price informativeness changes with the size of AP policy?
  - check high-frequency event data (e.g. around QE announcements) to validate mechanism
  - explore how price informativeness changes with AP scale

comment 2: robustness

- model uses binary payoffs + normally distributed signals
- are results robust to richer signal structures (e.g., continuous state space, skewed, heavy-tailed distributions)?
  - does non-monotonicity in price persist with more general informational assumptions?
- what if agents differ in attention, learning rules, or other factors affecting signal processing?

comment 3: monetary-fiscal interactions

- model treats govt bond supply as exogenous
- in practice, sovereign debt issuance endogenous, often strategic
  - APs affect cost of govt borrowing which can alter issuance behavior, maturity structure, auction timing ...
- introducing feedback between central bank action and fiscal policy can clarify (new) amplification mechanisms or potential conflicts between monetary and fiscal authorities

comment 4: dynamic extensions

- static one-period model may miss long-term dynamic considerations
- APs are often forward-looking and persistent
- how do beliefs evolve across repeated interventions?
- dynamic setup could inform optimal time-consistent AP policy

closing remarks

- model where heterogenous (bur rational) beliefs and learning from prices central to AP design
  - new perspective on belief-driven asset pricing
  - transmission mechanism of AP policy to asset prices
- just some food for thought to strengthen contribution
- many extensions possible on empirical, fiscal, and dynamic fronts