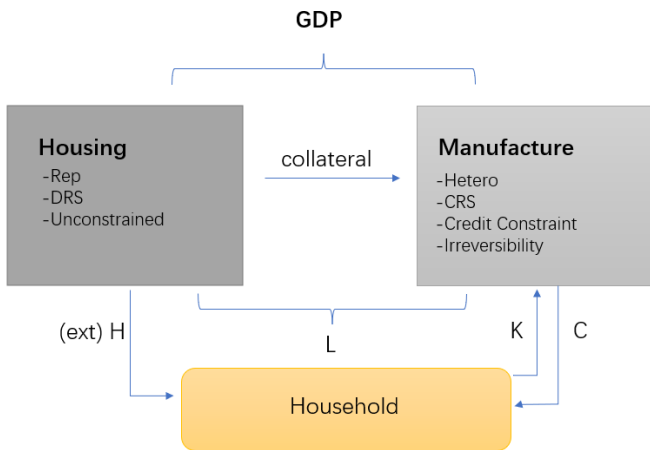# Discussion of "Inefficient Bubbly Boom" by Feng Dong, Yang Jiao and Haoning Sun

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Overview

Overview

- Dong, Jiao and Sun (2022): two-sector economy w.

    - production sector w. L & K

    - housing sector (endogenous housing supply) w. L

    - credit friction (+ irreversibility) $\rightarrow$ housing bubble

    - collateral effect *a la* Miao, Wang and Zhou (2015)

        - housing value $\uparrow \rightarrow$ collateral $\uparrow \rightarrow K^M \uparrow$

    - crowd-out effect (new)

        - housing value $\uparrow \rightarrow L^H \uparrow \rightarrow L^M \downarrow$

- Very inspiring and important paper!
    - I really enjoy reading it !

Comment 1

- Current version: constant labor supply

$$C = \underbrace{\left(\frac{R_k}{\alpha A^M}\right)^{\frac{1}{\alpha-1}}}_{collateral} (\frac{R_k}{\alpha} - \frac{\delta_h}{\omega(\varepsilon^*)}) \underbrace{L^M}_{crowd-out}$$

  - Important and nice assumption for theoretical tractability

  - Evidence for quantitative support
    - Mian and Sufi (2014): regions with larger decline in household net worth had larger reduction in employment in nontradable sectors during 2007-2009.
    - Charles et al. (2016): local housing booms increased employment between 2000-2006.

  - What if: elastic labor supply?
    - Collateral effect might be strengthened
    - Crowd-out effect might be weakened

Comment 2

- Calibration of (quarterly) housing depreciation rate: δ_h

    - This paper: $\delta_h = 0.1$

        - What's the calibration strategy?

    - Alternative strategies:

        - Rent-to-price ratio

        - Residential housing's average lifespan: i.e. $\delta_h = 0.003$ in Jiang, Miao and Zhang (2021)

Comment 3

- Two sectors economy versus one sector w. two assets,

  - i.e. collateral channel & crowd-out channel in Dong, Guo, Peng and Xu (2021); Goldstein and Gupta (2021)

  - housing bubble (baseline) vs. housing booms (ext)

- Crowding out channels

  - labor channel in this paper

  - financial channel *a la* Martin et al.(2021) and Goldstein and Gupta (2021)

- Optimal policy

  - Supply-side policy: subsidy to real estate producer

  - Demand-side policy: taxation on housing purchase

  - Goldstein and Gupta (2021): First-best achieved via combination of supply- and demand-side policy

- LTV shock: (aggregate) financial openness shock

  - alternative interpretation: (sectoral) demand shock

  - 'relative' friction changed (DRS H-sector always unconstrained)