

**Discussion on**  
**Durable Goods, Borrowing Constraints,**  
**and Consumption Insurance**  
**by Cerletti and Pijoan-Mas**

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AEA 2012 in Chicago

January 7, 2012

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- Josep asked me to do this.

# Background

- 1 Do the workhorse incomplete-market models generate degree of (self-)insurance consistent with data?
- 2 Blundell-Pistaferri-Preston (BPP, in the data):
  - 64% of permanent income shocks are transmitted to  $C$ .
  - 5% of transitory income shocks are transmitted to  $C$ .
- 3 Kaplan-Violante (KV, in their baseline SIM model):
  - 93% of permanent income shocks are transmitted to  $C$ .
  - 18% of transitory income shocks are transmitted to  $C$ .
- 4 What can help us bring the model closer to data?

# What Does This Paper Do?

- Extend the KV model by introducing **durable goods**.
- Study role of durable goods, interacting with **borrowing constraints**.
- Findings:
  - 1 Optimal rebalancing between  $D$  and  $C$  generates the dispersion between the degree of insurance and the transmission coefficients.
  - 2 Without borrowing constraints, adding  $D$  does not change the transmission coefficient for  $C$  generated by the model.
  - 3 With borrowing constraints, the transmission coefficient for  $C$  against transitory income shocks is lower.
  - 4 With borrowing constraints, the transmission coefficient for  $C$  against permanent income shocks is higher!
  - 5 Quantitatively: small (1-2 percentage points).

## Random Comments

- 1 It is a very clean paper.
- 2 Does the rebalancing mechanism exist in the data?
  - Compute the transmission coefficients for  $C$  and  $D$  from data.
  - Compare two countries with different tightness of the borrowing constraint.
- 3 What are the durable goods?
  - Is this a model of automobiles? Or books?
  - Why not housing?
- 4 Size of debt? Life-cycle models tend to generate too much debt.
- 5 Other candidates?
  - Lumpy durable goods?
  - Maintenance decision?
  - Labor-leisure choice?
  - Intra-household insurance?