

# Discussion of : Non Linear Relationship Between Global Liquidity and Asset Prices : Evidence from a Panel Threshold Model

Sophie Brana & Stéphanie Prat (2013)

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# Brief Summary

- Global liquidities have been growing since the mid-1990s until now,
- Because monetary authorities (Fed, BoJ, BoE and ECB) respond aggressively to domestic financial shocks using unconventional monetary policy actions (LSAP) with two goals,
  - restoring the functioning of financial markets and intermediation,
  - providing further monetary policy accommodation at the zero lower bound.
- But accommodative monetary policies have international spillovers

## Brief Summary (2)

- The authors Sophie and Stéphanie perform a quantitative analysis of one of those international spillovers,
- and provide evidence of the existence of a "liquidity paradox" (Chandrasekhar & Ghosh, 2009)
- by exploring empirically the non linear relationship between global excess liquidity and asset prices,
- very roughly, the estimated functional form of the model is,

$$EqReturn_{i,t} = \alpha_i + \beta_j \begin{cases} \beta_{\text{crisis}} \\ \beta_{\text{no crisis}} \end{cases} \Delta M_0 Y_{i,t} + \dots \quad (1)$$

- They find that  $\beta_{\text{crisis}} \neq \beta_{\text{no crisis}}$  (non linearities)
- $\beta_{\text{crisis}} \simeq 0$  and  $\beta_{\text{no crisis}} > 0 \rightarrow$  existence of a "liquidity paradox".

## Comments/Questions

- Since you estimate the model with and without the growth rate of M2, which one of the models is the best? (according to some informational criterions)
- Why do the estimation results of model with M2 shows a non significance for inflation in regime 2 while it does in model without?
- As you mentioned, there are tons of different definitions of global liquidities, have you tried any other definition to see if results are sensitive to the chosen definition?

# Suggestion(s)

- There are some important differences between 1st table and 2nd table, the model look very sensitive to M2, maybe this could be solved by using a VaR,
  - estimating a VaR with data when a crisis occurs
  - estimating a 2nd VaR without crisis in the data
- and you could compare the impulse response functions to a global liquidity shock.

# Conclusion

- The article and topic is very interesting, and concerns a growing literature
- the question is very important for developing countries because of currency instability created by accomodative monetary policies
- the article succeed in providing evidence of the existence of a "liquidity paradox"

BRANA, S, & SHIN, PRAT S. 2013.

*Nonlinear relationship between global excess liquidity and asset prices : Evidence from a panel threshold model.*

Unpublished Draft.

CHANDRASEKHAR, CP, & GHOSH, JAYATI. 2009.

*The global liquidity paradox.*

Tech. rept. mimeo.