Discussion on *The Effects of Sector-Specific Credit Supply Shocks on the U.S. Economy* by Maximillian Littlejohn

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Big picture

- Researcher have been working on the effect of credit shock on economy
- ...but shocks originating from different sources may have different power and implications
- This paper identifies **sector-specific** credit supply shocks, and assess relative importance for economy.
- Sector specific: household, corporate, and banking

How does credit affect the economy?

There are several ways through which credit can influence the macroeconomy.

- Firms: borrow and invest, increase the production
- Households: borrow and consume, increase the demand
- Banking
- ...

Important to separate the shocks

Different patterns in the data ▸ Figure

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Different business cycle movements

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Different implications for policy

- Spike in household debt can lead to an eventual bust $\Rightarrow$ household leverage growth may need to be regulated (Schmitt-Grohe and Uribe (2016), Korinek and Simsek (2016) and Farhi and Werning (2015))

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Different pass-throughs

- Banking sector plays important role, especially for modern economy

Contribution

This paper:

- identifies credit supply shocks based on the sectors in which they arise
- assesses relative importance for real economic activity
  - banking sector accounts for 25%, households and corporate sectors account for 15% of the output fluctuation
- provides useful results for understanding the previous crises
  - e.g. minor role for credit supply shocks during 2008 financial crisis

Potential future work

- Nice, informative paper!
- Would be useful to illustrate more the advantage of using within-quarter sign restrictions (”shocks are exclusive”)
- Any role for the government subsidies and bailout?
- Any role for international lenders?
- Credit shocks originating in different countries may have different roles too.
  - e.g. Credit shocks originating in the U.S. have a significant impact on the evolution of world growth during global recessions. (Thomas et al. 2011)

Different patterns in the data

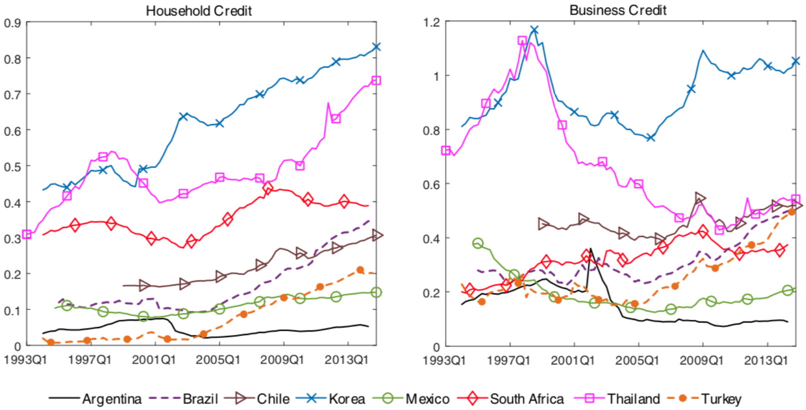

Fig. 1. Credit-to-GDP ratios in emerging market economies.

Source: B. Bahadir, I. Gumus, Journal of International Economics, 103 (2016) 250–262 Back