Discussion of

Dissecting Mechanisms of Financial Crises: Intermediation and Sentiment

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introduction

a model of financial crises

- financial amplification
- time-varying beliefs/sentiments

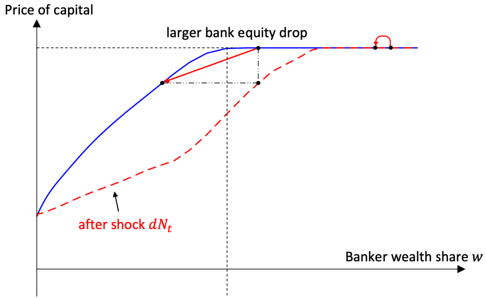
financial amplification

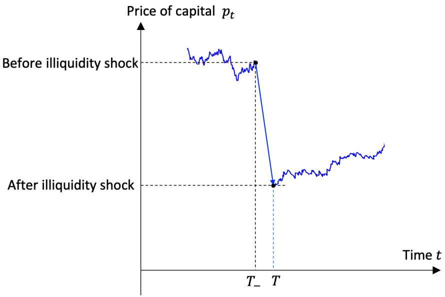
- matches crisis objects
- comes from variation in wealth-share of intermediaries

time-varying beliefs

- low credit spreads + high credit/GDP pre-crisis
- yet leverage predicts crisis
- neglected crash risk in GE

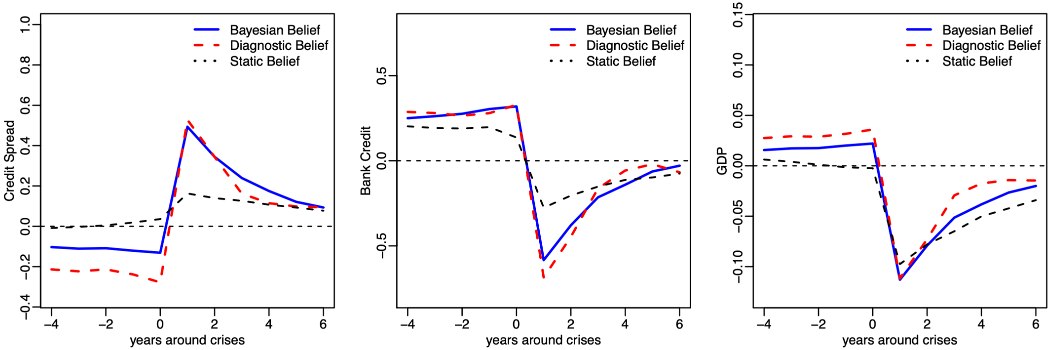
financial crises with low intermediary capital





low w + high leverage → high vulnerability
→ reflected in credit spreads ex-ante with static beliefs

dynamics around crises



comments/questions/quibbles

1. beliefs on exogenous objects
   (Rognlie Shleifer Simsek 2017, Beaudry Portier 2020,...
   DE on endog variables in linear setting -> L'Huillier Singh Yoo 2021)
2. does low bank capital predict crises in the model?
   (Jordá Richter Schularick Taylor 2021)
3. policy: transfer wealth from households to bankers
   (no perverse side-effects of such policies?)
4. financial crises seem equally likely to occur with
   Static/Bayesian/Diagnostic beliefs?
   (Maxted 2020, Camous & Van der Ghote 2021)
5. more generally, how to do welfare with belief distortions
   (Brunnermeier Simsek Xiong 2014 perhaps?)