

Discussion of Curdia and Woodford Credit Frictions and Optimal Monetary Policy

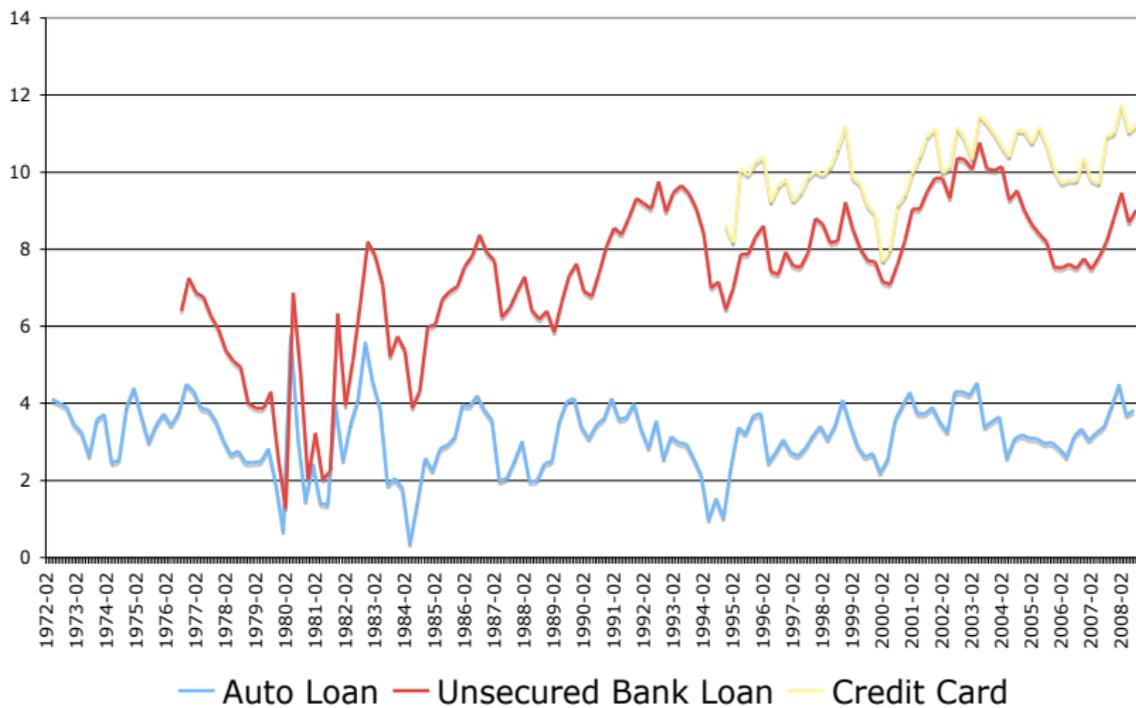
Andrew Atkeson

October 2008

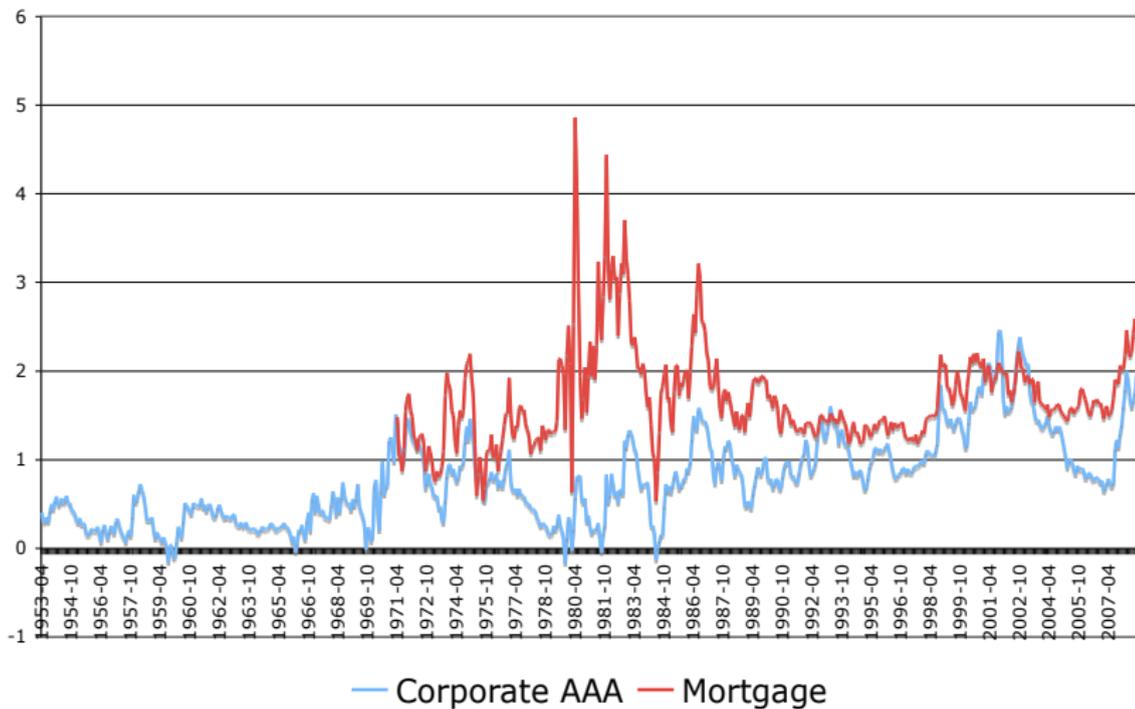
Outline I

- *Credit Spreads* — what are they in theory and data?
 - this paper: spread between borrowing and lending rates
 - due to resource cost or markup in intermediation
 - in data: default risk and prepayment options
 - in undergrad theory: default spreads are not frictions
 - in grad theory: default spreads are not there?
 - in data: is the spread left over a friction or a risk?
 - in data: is spread left over large enough to worry about?

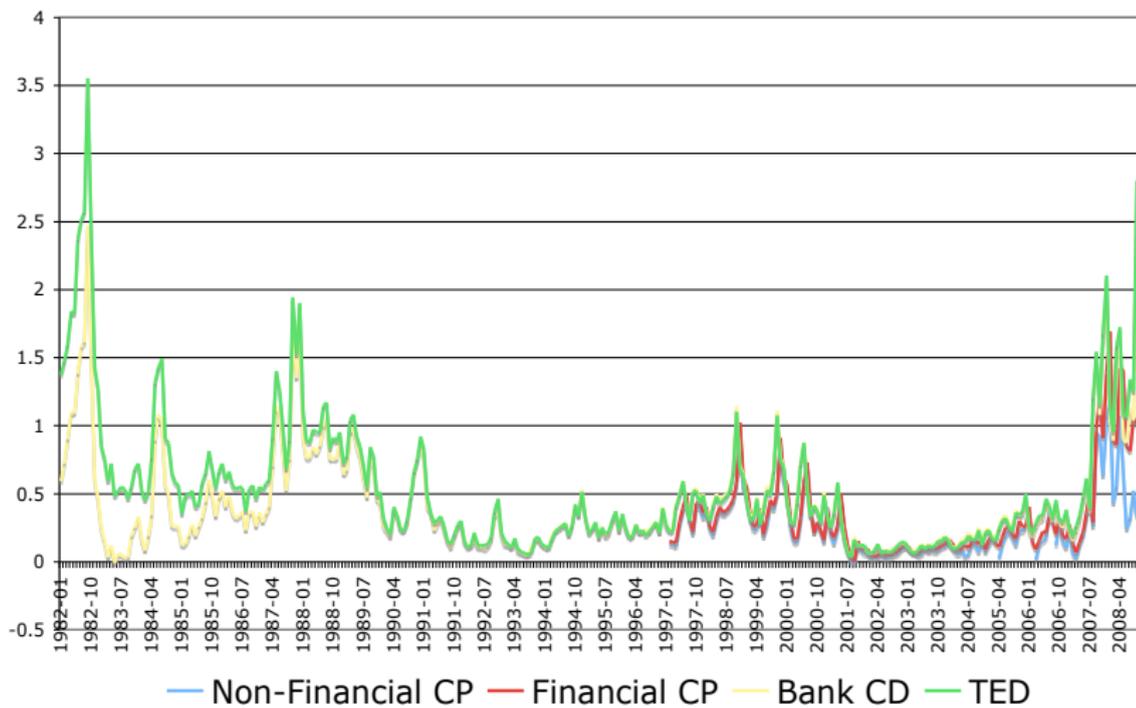
Consumer Loan Spreads



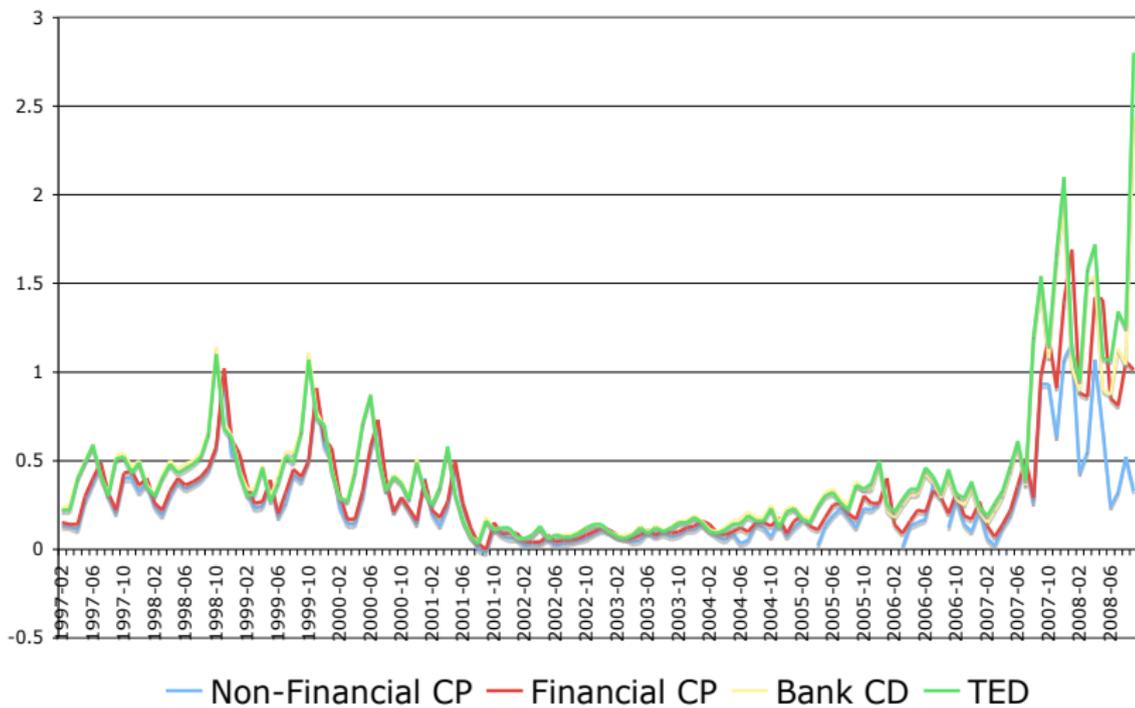
Mortgage and Corporate Spreads



Short Term Spreads



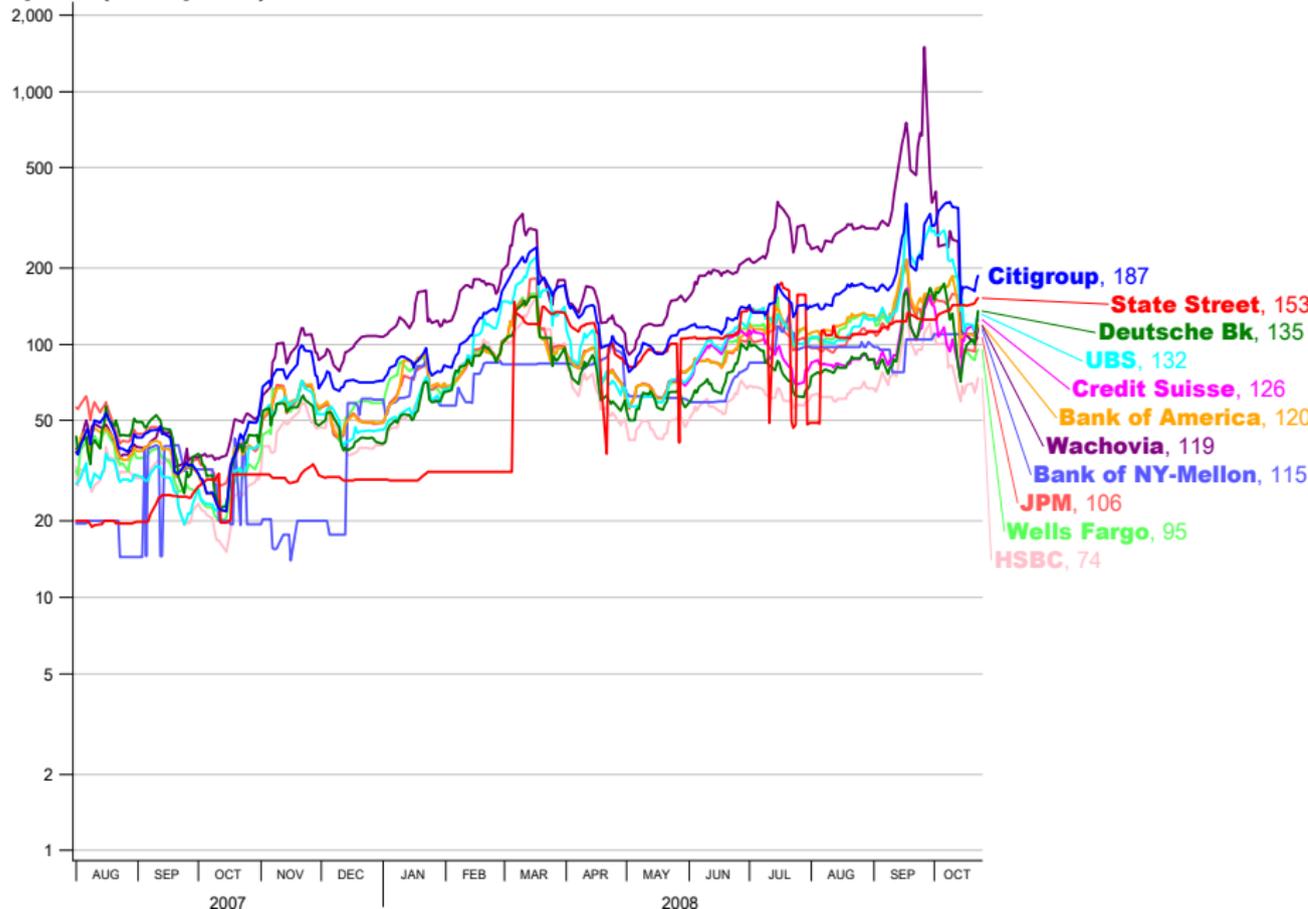
Short Term Spreads



Banks 2

Weekdays, August 1, 2007 to October 23, 2008, (Value for most recent date in parentheses)

Spread (basis points)



Conclusion Part I:

- *Prof. Rios Rull* — What are those Personal Spreads?
- Long-Term Collateralized/Low Default Spreads Low and Stable
- Short-Term Non-financial Spreads Low and Stable
- Spread Corresponding to Spread in Model less than 100 b.p.
- Something Weird in Short-Term Financial Spreads,
 - but not spread in model
 - not in auto loans, Corporate Bonds, or Conventional Mortgages
- Last 10 minutes to tell Andy he is all messed up about data

Outline II

- *The Model* — Segmented Markets times Two
 - two asset markets: insurance and borrowing/lending
 - One: transfers between two asset markets only at random times
 - Two: wedge between borrowing and lending rates
 - Mathematical structure of model similar to segmented markets models of AA(1997), AAK(2002), AAE(2008)
 - different mapping of model elements to data
 - What rates in model(s) are linked to the Fed Funds rate in the data?
 - What is the Fed Funds rate in the data?

Interpretation of Asset Markets

- Interpretation in this paper:
 - *Insurance market* — a device to keep the distribution of assets tractable
 - *borrowing/lending market* — all assets corresponding to data traded here
 - Policy Rate is interest rate in borrowing/lending market
- Interpretation in AA(1997), AAK(2002), AAE(2008)
 - *Insurance market* — market in which assets held outside retail banking traded
 - *borrowing/lending market* — retail banking
 - Policy Rate is interest rate in insurance market

Fed Funds - 3 mo T Bill

