Discussion

Multiple Equilibria in Open Economy Models with Collateral Constraints: Overborrowing Revisited

by Stephanie Schmitt-Grohé and Martín Uribe

Eduardo Dávila

NYU Stern

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  2. Quantitative analysis with flow constraints in stochastic calibrated model
     - Under-borrowing in constrained economy relative to First-Best unconstrained economy
     - Under-borrowing in constrained economy relative to Optimal Ramsey Planner (Capital controls)

Outline

Some perspective

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3. **Welfare**: Constrained efficient solution for standard equilibrium selection features *overborrowing*
   - This paper: opposite prescription

Canonical Models

1. Collateral constraint

$$\sum_{t=0}^{\infty} \beta^t u\left(c_t\right)$$

$$c_t + d_t + q_t\left(k_{t+1} - k_t\right) = A_t k_t^{\alpha} + \frac{d_{t+1}}{1+r}$$

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$$\mathbb{E}_0 \sum_{t=0}^{\infty} \beta^t u\left(A\left(c_t^T, c_t^N\right)\right)$$

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- $\beta\left(1+r\right) = 1 \Rightarrow$Constraint does not bind in Steady State

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2. Normative results
    - With perfect foresight, optimal policy implements the first-best equilibrium

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Figure 6: External Debt Densities With And Without Collateral Constraints

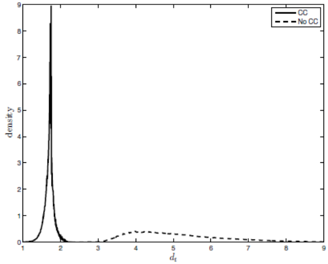
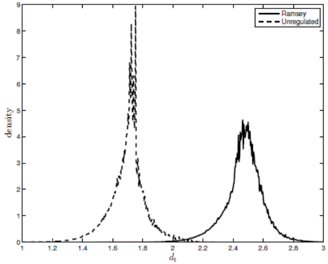


Figure 8: Equilibrium Underborrowing



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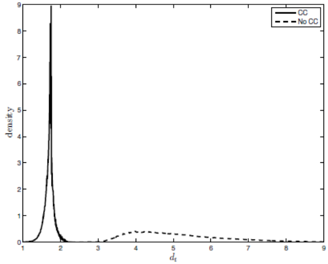

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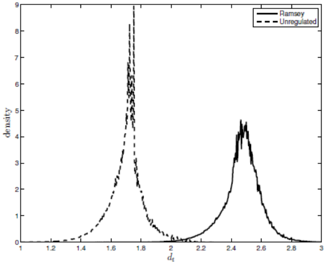

- Results
  - Debt in decentralized economy (CC) $<$ Debt in unconstrained economy (intuitive)
  - Debt in decentralized economy (CC)$<$ Debt in Ramsey economy (under-borrowing)

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   - Solution of constrained planning problem becomes less trivial
   - Two goals for constrained planner
     - Reduce over-borrowing in standard equilibrium
     - Reduce under-borrowing in undominated equilibrium

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   - Better connection between theory and quantification

Conclusion

- Multiplicity+Efficiency in this context
  - Important under-researched area
- Several very interesting results
- Lots of promise for the paper!