UNC KENAN-FLAGLER BUSINESS SCHOOL

Consumption

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Discussant: **Andrei S. Gonçalves**

2022 AFA

Outline

The Paper

My Comments

Final Remarks

The Paper in a Nutshell

- Typical CCAPMs:
- The Paper's Logic:
- The Paper's Findings:

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  - $\mathbb{E}_t[\Delta c]$ is constant (e.g., Campbell and Cochrane (1999))
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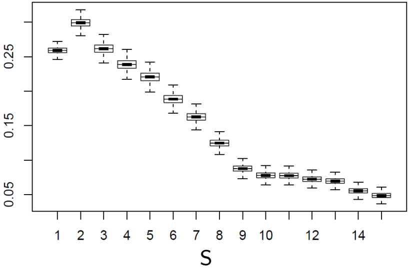

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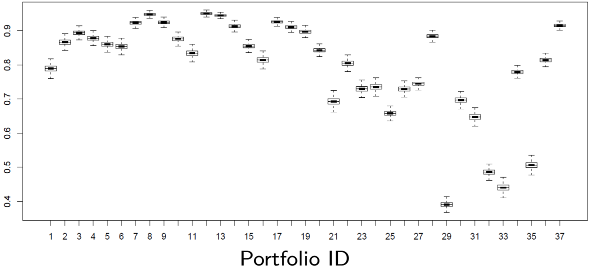

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Cross-Sectional R^2

Row:	α	λ_f	λ_g	$\lambda_f = \lambda_g$	$\bar{R}^2$
One latent factor specification					
(1)	.0058 [0.0053, .0063]	16.00 [9.54, 28.78]			.59 [.56, .62]
(2)		22.00 [13.12, 39.67]			.91 [.90, .92]

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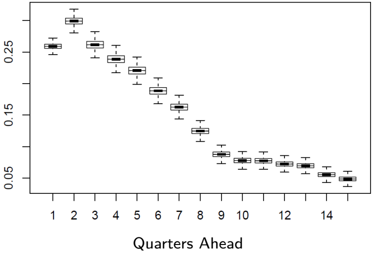

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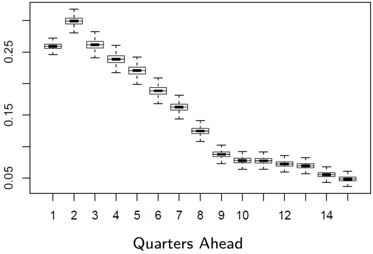

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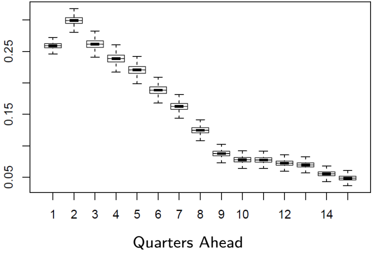

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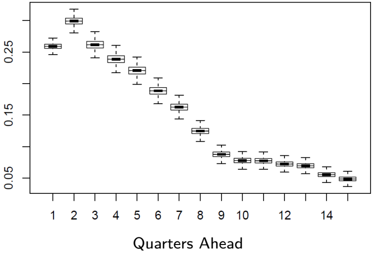
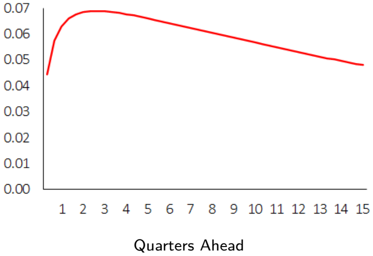


Long Run Risks Model



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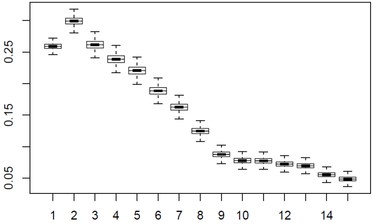

Quarters Ahead

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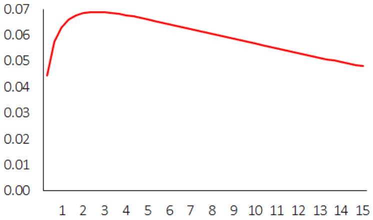

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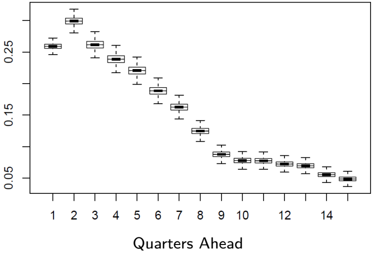

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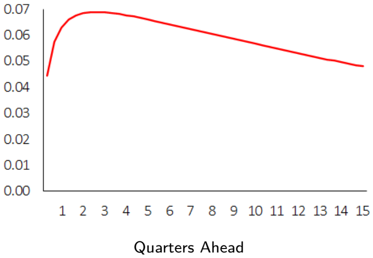

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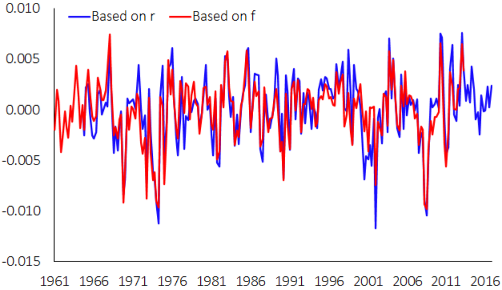

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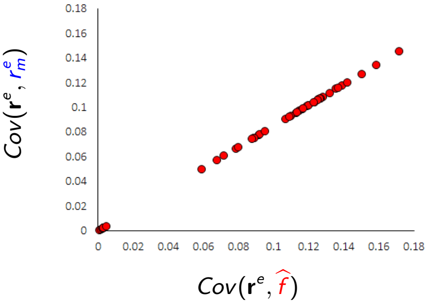

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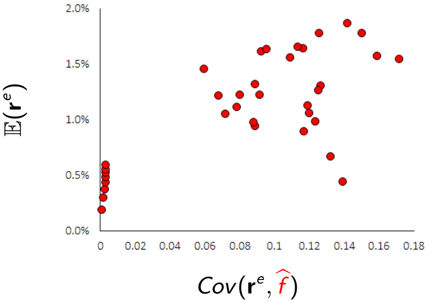

Other Comments

1. Do other variables predict Δc_t controlling for f_t history?
2. Could estimate preference parameters
3. Is it possible to disentangle Δc_t predictability from Δc_t filtering? (Kroencke 2017, JF)
4. Δc_t predictable, but f_t independent?
   - If $\mathbb{E}[\Delta c]$ varies over time then $\mathbb{E}[\mathbf{r}^e]$ likely also does
   - This issue affects $Cov\left(\mathbf{r}_t^e, \Delta c_{t-1,t+S}\right)$

Outline

The Paper

My Comments

Final Remarks

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- Good luck!

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Long Run Risks Model $\mathbb{V}ar\left(\mathbb{E}_t[\Delta c_{t,t+S}]\right)/\mathbb{V}ar\left(\Delta c_{t,t+S}\right)$

- $\mathbb{E}_t[\Delta c_{t,t+S}] = S \cdot \mu + (1 + \rho + \rho^2 + ... + \rho^{S-1}) \cdot x_t$

- $\mathbb{V}ar\left(\mathbb{E}_t[\Delta c_{t,t+S}]\right) = (1 + \rho + \rho^2 + ... + \rho^{S-1})^2 \cdot \frac{\phi_e^2 \cdot \sigma^2}{1-\rho^2}$

- $\mathbb{V}ar\left(\Delta c_{t,t+1} - \mathbb{E}_t[\Delta c_{t,t+1}]\right) = \sigma^2$

- $\mathbb{V}ar\left(\Delta c_{t,t+S} - \mathbb{E}_t[\Delta c_{t,t+S}]\right) = \sigma^2 \cdot S + \phi_e^2 \cdot \sigma^2 \cdot \left[1 + (1+\rho) + (1+\rho+\rho^2) + ... + (1+\rho+\rho^2+...+\rho^{S-2})\right]$

- $\mathbb{V}ar\left(\Delta c_{t,t+S}\right) = \mathbb{V}ar\left(\mathbb{E}_t[\Delta c_{t,t+S}]\right) + \mathbb{V}ar\left(\Delta c_{t,t+S} - \mathbb{E}_t[\Delta c_{t,t+S}]\right)$