Discussion of Doerr, Eren and Malamud

“Money Market Funds and the Pricing of Near-Money Assets”

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Interesting paper that studies how money market funds (MMFs) affect movements in Treasury bill rate through their purchases

1. Suggestion to include other leading indicators as additional controls

2. Why to focus only on effects of changes in residual cash on current rates but not future rates?

3. Thoughts about decomposition of liquidity premium

How does the paper study the aggregate impact of funds on T-bill rate

- Estimate IV regression over 2011M2-2022M12 sample period
  - Spread between reverse repo and T-bill rates
  - Share of funds' investments in T-bills and reverse repo facilities
  - Controls: Fed funds rate, VIX, T-bill supply variable
- Use two instruments
  1. Change in demand for repos by European banks at the end of quarter
  2. Herfindahl-Hirschman index of funds in repo market

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Would be interesting to include more leading indicators as additional control variables

Spreads as forecasters of real activity: why to include more leading indicators

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The paper focuses on spread between reverse repo and T-bill rates to study the role of funds investments on Treasury bill rate

Would be interesting to know if results are sensitive to including e.g. MOVE, Gilchrist-Zakrajšek excess bond premium, Philadelphia Fed's leading indicators

Why to focus only on responses of rates within same period?

The paper estimates local projections-IV, but only examines the contemporaneous case at $h = 0$

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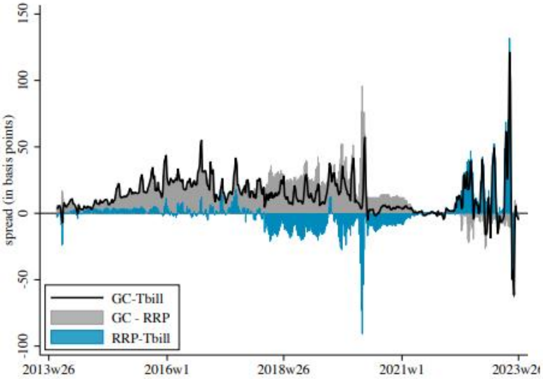
Literature on "hidden" factors in the term structure suggests Treasury yields partly driven by surprises that do not show up in yields contemporaneously.

Would be interesting to look beyond responses of current rates.. How would funds' purchases affect expected future short rates? How has the Fed responded?

Decomposition of Liquidity Premium



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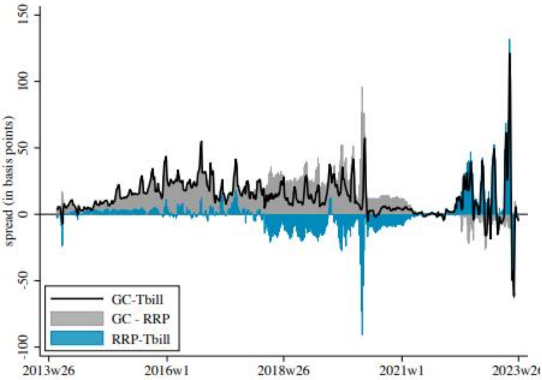

Would be interesting to estimate historical decomposition of liquidity premium into contribution of funds through their purchases

Historical Decomposition of Liquidity Premium

Following proxy-VAR method, historical contributions can be estimated by first running a VAR

$$Y_t \equiv \begin{bmatrix} \mathrm{GC}_t - \mathrm{TBill}_t \\ \text{residual cash share}_t \\ W_t \end{bmatrix} = A(L)\,Y_{t-1} + u_t$$

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Main advantage: can be used with different frequencies for Y_t and instruments

Conclusion

Very much enjoyed reading the paper

Would be interesting to control for more leading indicators and look beyond current rates

Would use historical decomposition to quantify contributions of funds' purchases