Discussion of "A TALE OF TWO MARGINS: MONETARY POLICY AND CAPITAL MISALLOCATION IN SPAIN" by Silvia Albrizio and Beatriz González

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Summary (i)

Aim: Look at the impact of unexpected monetary policy easing shocks (25 bps decrease in interest rates) on the within-industry capital misallocation for Spanish firms.

Methodology:

1. To compute capital misallocation: within-sector dispersion of the marginal revenue product of capital (MRPK).
2. To assess the role of monetary policy (MP) shock on MRPK dispersion: reduced-form model in a local projection framework (Jordà, 2005), where the change in MRPK dispersion is regressed on the contemporaneous MP shock.
3. To look at the intensive margin: average effect of the MP shock on investment, controlling for macro variables
   a) To estimate the differential effect on firms with high MRPK: interaction of the MP shock with the deviation from the mean of MRPK + double-demeaned estimator.
   b) To check if it is a “financial friction story”: as in a), but as dependent variables firm leverage and cash ratio.
4. To look at the extensive margin: as in 2., but as dependent variables the share of entry/exit.

Summary (ii)

Data: quasi-universe of Spanish firms from CBI for the period 2000-2016.

Matched to:

- Entry and exit data: microdata from DIRCE, including entry/exit indicators from various sources.
- Monetary policy shocks: from Jarocinski & Karady (2020), aggregated at annual frequency.

Main findings: expansionary monetary policy decreases the within-industry capital misallocation.

- Intensive margin:
  - Firm's investment increase, and more so for high MRPK (and young) firms
  - High MRPK firms increase more than proportionally their leverage

    → High MPRK firms seem to benefit the most from expansionary monetary policies.
- Extensive margin:
  - In the short run: entry increases (although a lower share of high growth firms), no effect on exit.
  - In the medium run: entry decreases, exit increases.

General remarks

- Very interesting topic, potentially very relevant at the moment!
- An expansionary monetary policy shock might lead to both an increase and a decrease in capital misallocation:
  - If less cleansing, more credit misallocation, etc. → Increased capital misallocation
  - If decreased financial frictions → Decreased capital misallocation

  In principle, both phenomena at the same time. Which one prevails? → VERY ambitious but, have you thought to a possible strategy to disentangle the two "directions" and quantify their relative importance? Interesting to further discuss this point.
- Focus on capital misallocation, labour misallocation not included (i.e., implicit assumption: efficient allocation on the labour side) → Why looking at MRPL is beyond the scope of the paper? Interesting to further discuss this point.
- Related, caution when using the term "high productive firms" as synonymous for firms with high MRPK.
- Only tangible capital measured, not intangible. → Although the variable is not available, a discussion of its importance would be relevant.
- You mention that "the forces of the intensive margin seem to dominate" → Important point, but not clear how you test it.
- I would suggest to be cautious when drawing conclusions and implications from the results. If it is just an intuition not supported by the analysis yet, I would make it explicit.

More detailed comments (i)

- On the “relaxed financial frictions” explanation: this is a convincing explanation for decreased misallocation. However:
  - Why do you look only at the effect on high MRPK firms rather than on the overall distribution? → Interesting maybe to look at different percentiles of the distribution (average marginal effects)?
  - If I interpreted correctly, results on financial frictions (both leverage and liquidity) are quite mild (often not significant) → Do you have any other robustness in mind?
  - Essentially only high MRPK firms have some sensitivity to the MP shock → Relevant to provide an intuition for that.
- Relevant to provide an intuition for:
  - In Figure 1, during the Crisis misallocation of capital decreases.→ Cleansing?
  - When looking at heterogeneity in the sensitivity to investments, the negative sing for age (Figure 6).
  - In response to the MP shock, entry rate is positive in the first year but then is negative and significant (Figure 7), and exit rate is positive.

More detailed comments (ii)

- When looking at the average effect of the MP shock on investment, the impact is nearly zero, except for the third year → Some robustness would be useful.
- On the data:
  - The dataset combines data from voluntary reporting and obligatory filings of annual accounts in mercantile registries → Does it mean that small firms are a very selected sample of firms voluntarily reporting? How it relates to high MRPK firms?
  - Do you have an explanation for the different levels in terms of entry rates between the DIRCE dataset and your final matched dataset (Figure 10)?
  - The analysis with the balanced panel does not add much to the discussion → Maybe consider taking it away.
  - Not clear in the tables for descriptive statistics how TFP is reported → is it *ln*?
  - You mention you have 1 million obs. per year but in the Tables the total is overall less than 4 million → Double check.
- Pay attention, according to the HK model, MRPK is not equal but proportional to the average return to capital (although of course it does not change anything when looking at the SD).
- Finally, double check a bit the notation in the formulas.

THANK YOU!

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