#### Discussion

# Monetary Policy, Firm Exit and Productivity by Benny Hartwig and Philipp Lieberknecht

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## One-slide summary

- Research question: What are the effects of monetary policy on firm entry and exit and and how does this shape monetary transmission?
- Empirical evidence: expansionary monetary shocks lower exit and raise entry
- Model (Hopenhayn meets Galí): response of entry/exit amplifies the output effects of monetary policy

► Great paper! I learned a lot! Next: some suggestions/comments

## Big picture thoughts

- The response of entry/exit to monetary policy has been estimated in a number of previous papers
  - But, previous papers use data ending in the 1990s, while this paper uses data from the 1990s until today
  - A lot has changed since the 1990s!
  - Monetary policy has changed, e.g., zero lower bound, unconventional policies
  - Business dynamism has declined
  - Market power and concentration increased
  - Intangible assets have been on the rise
- Have the effects of monetary policy on entry/exit changed over time?
- If so, can such changes be linked to other broad macroeconomic trends?

## Big picture thoughts

- Similar NK model with endogenous entry and exit studied in Colciago and Silvestrini (2020) and Hamano and Zanetti (2020)
  - Prices flexible in the other papers
  - Novel 1: if (only) prices are sticky, entry/exit may move in the opposite direction
    - Can you show this analytically?
    - Idea: exploit cross-sector data on wage and price rigidity to test the implication of your model
  - Novel 2: endogenous exit affects Phillips curve
    - Can endogenous exit explain a flatter (standard) Phillips curve?

### Some comments on the empirical evidence

- SVAR model includes some standard variables and then separately entry, exit, productivity, and the real wage
  - Is this consistent with your DSGE model?
  - Inconsistent if these separate variables are state variables that are necessary to describe the aggregate dynamics
- Insignificant response of utilization-adjusted productivity
  - Estimating large models on short data can lead (mechanically) to insignificant estimates
  - Insignificant result not robust in (more parsimonious) local projections
- Firm exit overshooting: expansionary MP first lowers exit below mean but then increases it above mean 3-4 years after
  - You emphasize this quite a bit, but...
  - This is not very significant in the VAR model and not very robust in local projections

#### Some comments on the model

- Exit channel
  - "As expansionary monetary policy allows unproductive firms to remain in the market, the number of active firms increases substantially. This raises overall production capacity, causing aggregate supply to rise."
  - This is key and could benefit from a more in-depth explanation
  - In principle, lower average productivity (through less exit) could lower output, which would dampen the output effects of expansionary monetary policy
  - My guess of what happens in the model: less exit → more varieties → more output because of DRS and this dominates lower average productivity
  - Does this depend on the parametrization of the model?
  - Can you investigate this analytically?
  - How robust is this mechanism to alternative models of entry/exit?

#### Some comments on the model

- What is your definition of a Zombie firm?
- Motivation for including the working capital assumption?
- ► Wages are flexible in the model description
- Law of motion for measure of firms only includes exogenous exit