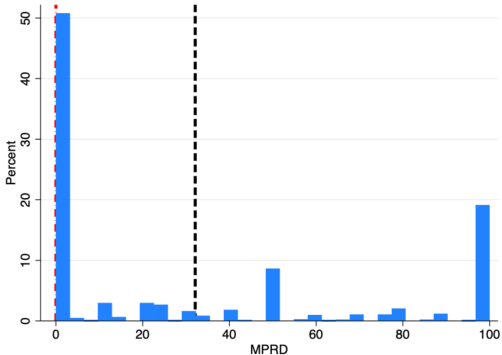
Discussion of "Stimulus through Insurance: The Marginal Propensity to Repay Debt" by Kosar, Melcangi, Pilossoph and Wiczer

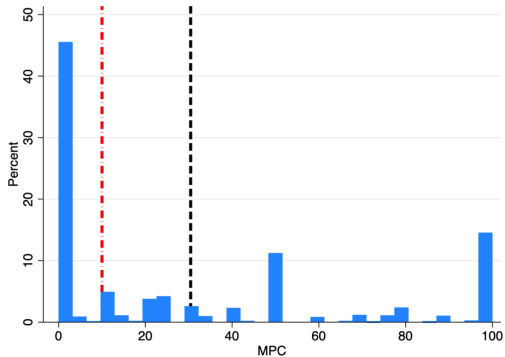
Kurt Mitman

IIES, Stockholm University, CEPR and IZA

AEA Annual Meeting
NOLA
January 6, 2023

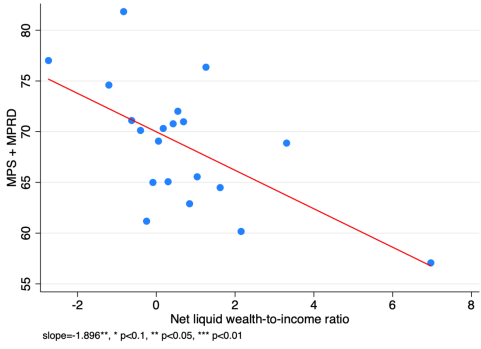
Very quick summary

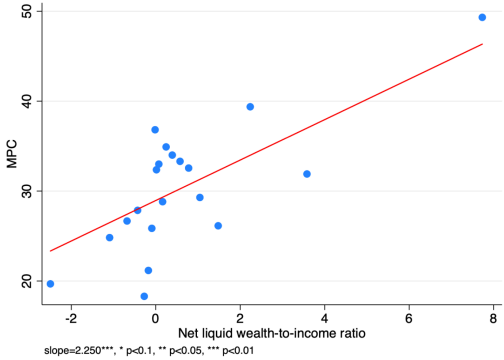




- Large focus on MPC het, but not much on unpacking MPA ($= 1-$MPC)
- What can the MPRD tell us about MPCs and models?

Most provocative finding?





- MPCs are *increasing* in net liquid wealth!
- Goes against standard IM models...but $R^2 = 0.02$.

Data Comments and Questions

1. How should we think about the transfer relative to UI (and all the other transfer policies)?

2. Disposable income increased, particularly at the bottom of the distribution

3. What about expectations of future income risk?

4. Could be helpful to look at MPCs/MPRDs based on classifications of HtM status (see next paper) to relate to the lit

5. Does the question really measure our concept of MPC/MPRD (e.g. bounded in $[0, 1]$)

Model

- To rationalize increasing MPCs, write down a model with non-linear debt pricing $q(a')a'$
- The MPC then depends on

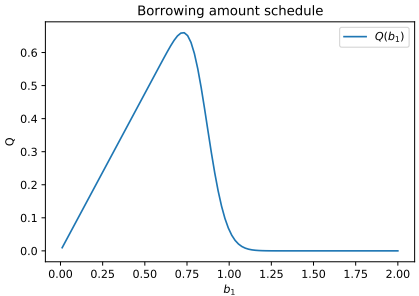
$$\frac{dc}{dy} = 1 - \frac{da'}{dy}\left(q'(a')a' + q(a')\right)$$

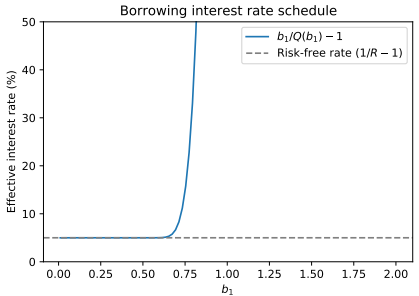
- Assuming savings is a normal good, then MPC will be falling if $q'(a')a' + q(a')$ is decreasing in a', i.e., $q(a')a'$ is concave
- Choose a parametric function for $q(\cdot)$ that gives concavity$\Rightarrow$ can match increasing MPCs

Model Comments

- Typically, we generate $q(\cdot)$ functions with models of endogenous default
- The price reflects the expected recovery rate on debt (NB: I've flipped signs):

$$Q(b') = q(b')b' = \frac{b'}{R}\left(1 - d(b')\right)$$

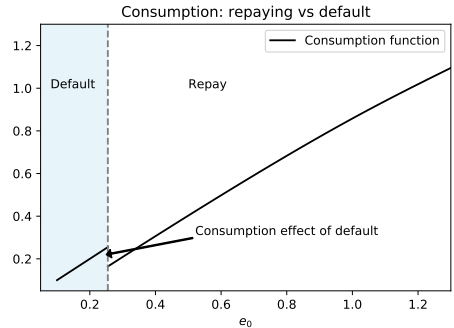




- These models typically generate concave $Q(b')$, i.e. convex $q(a')a'$

Model Comments

- Models with default can generate rich MPC/MPRD dynamics



- Non-convexities lead to discontinuities in the consumption policy function
- Locally, can generate negative MPCs, high MPRDs around discontinuity points

Big Picture Comments

- Is this a paper about MPCs or about transfer policies?
- Would be interesting to compare transfers to direct debt relief (evidence in SCE?)
- Related to Auclert and Mitman (2022): default/debt repayment channel can lower the effective multiplier for the economy, leading to lower fluctuations, but also less potent fiscal policy
- Very nice and provocative paper — looking forward to seeing the next version!