Discussion

Nominal rigidities and Asset Pricing

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This a great paper!

Two main contributions

- *Empirics:* Looking at BLS price indexes to measure precisely frequency of price changes and see the firm level interactions with the cross-section of return:
  Sticky prices firms have higher returns
- *Theory:* Michael proposes a mechanism within macro NK model to understand his basic fact

Fits into burgeoning literature exploring the role of monetary policy for asset pricing:

- Impact of monetary policy on risk premia
- What can we learn from asset prices about monetary policy
  *S*ee Campbell, Pflueger and Viceira; Drechsler and Savov; Boyarchenko, Haddad and Plosser, etc...

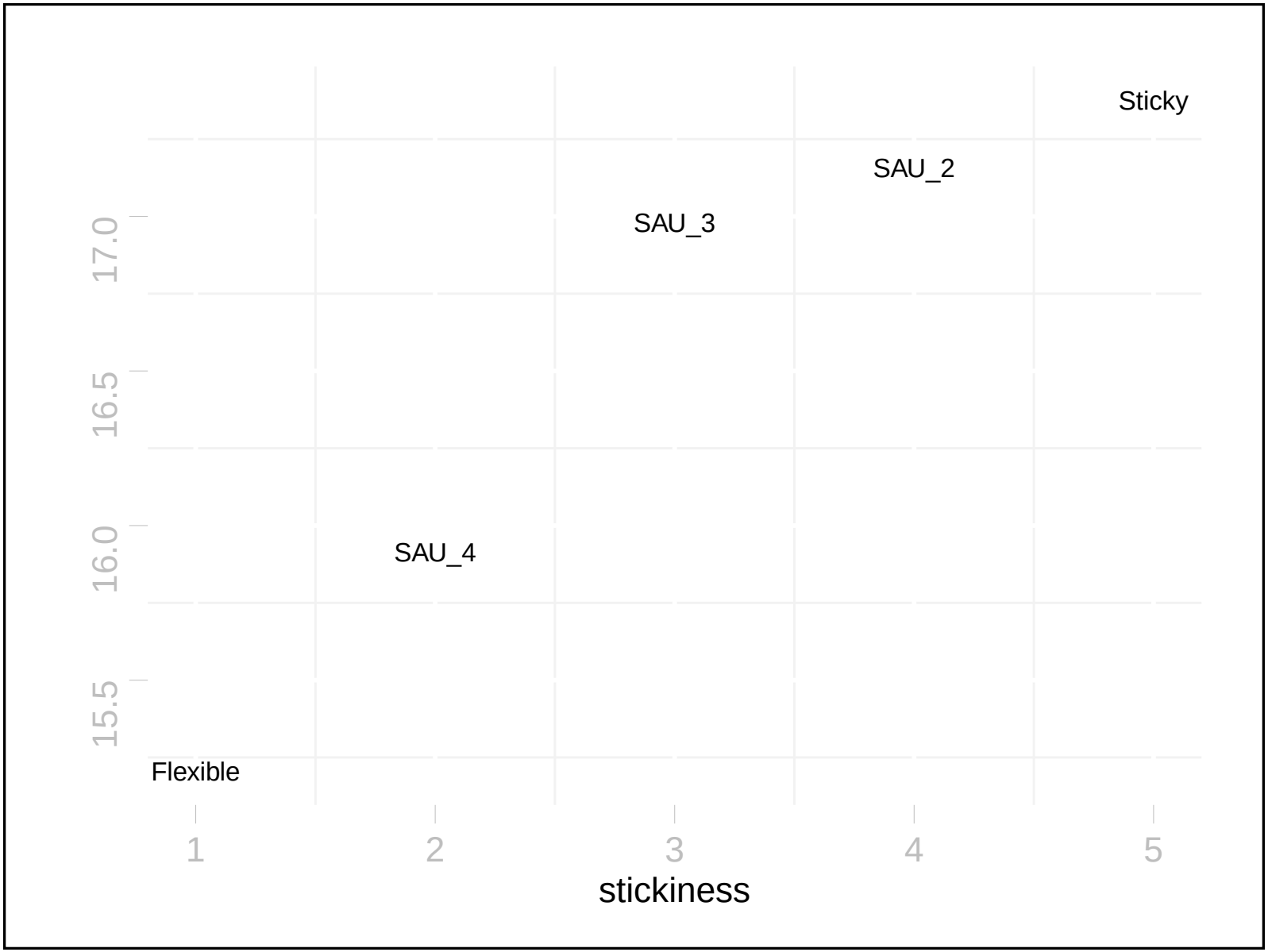
Plan

Summary - empirical results

Hard to summarise such a **plethora** of asset pricing results!

- Michael does every asset pricing test imaginable to check the robustness of his mechanism!
- Main takeaway is portfolio return of sticky versus non-sticky firms

Summary - empirical results



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Main results

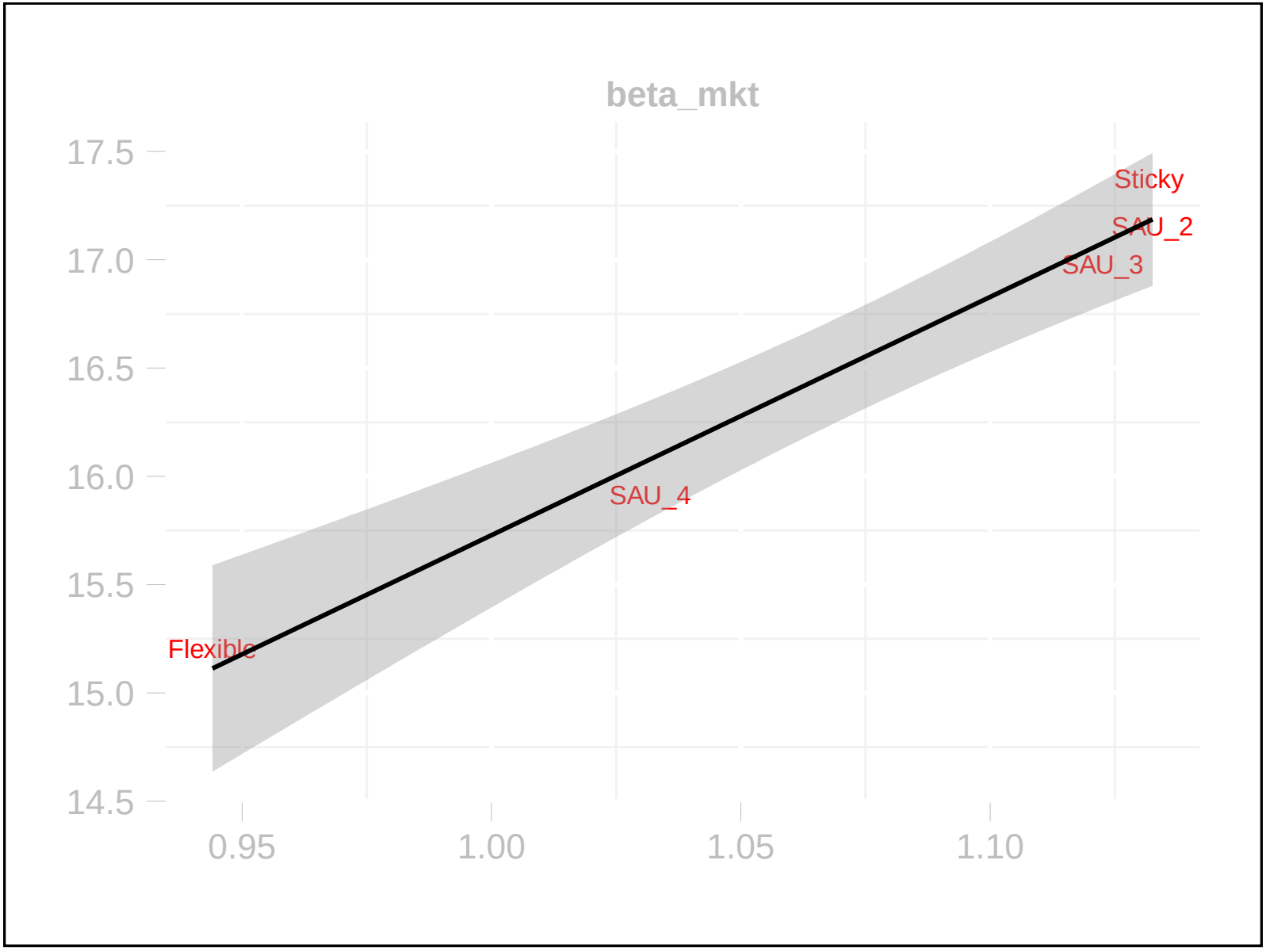
- Portfolio of firms with flexible prices have lower average returns
- Going **long sticky** and **short flexible**: 2.74% annualized returns

Robustness

- Spread is not explained by 3 factor model
- Not a manifestation of some conditional version of the CAPM (monetary policy/prices tend to follow business cycle)

Summary - empirical results

One surprising fact: portfolio returns line up with market beta



Summary - theoretical results

Small scale DSGE model with nominal rigidities (Calvo)

- Multiple sectors with different pricing friction
  - Speed of Calvo faerie? More on this later!

Main intuition for the cross-section of returns

- Contractionary monetary policy:
  - High marginal utility: fall in output
  - **High Faerie** sectors cut their prices and accomodate demand (lower deadweight loss)
  - **Low Faerie** sectors cannot decrease prices enough and operate at largely inefficient price
- Firms with sticky prices do poorly especially in times of high marginal utility: higher expected returns

Plan

Beyond asset pricing: monetary policy!

Returns lining up with beta:

- Sticky price portfolios line up nicely with beta
- Set of test assets that prove the CAPM is true!

Beyond asset pricing: monetary policy!

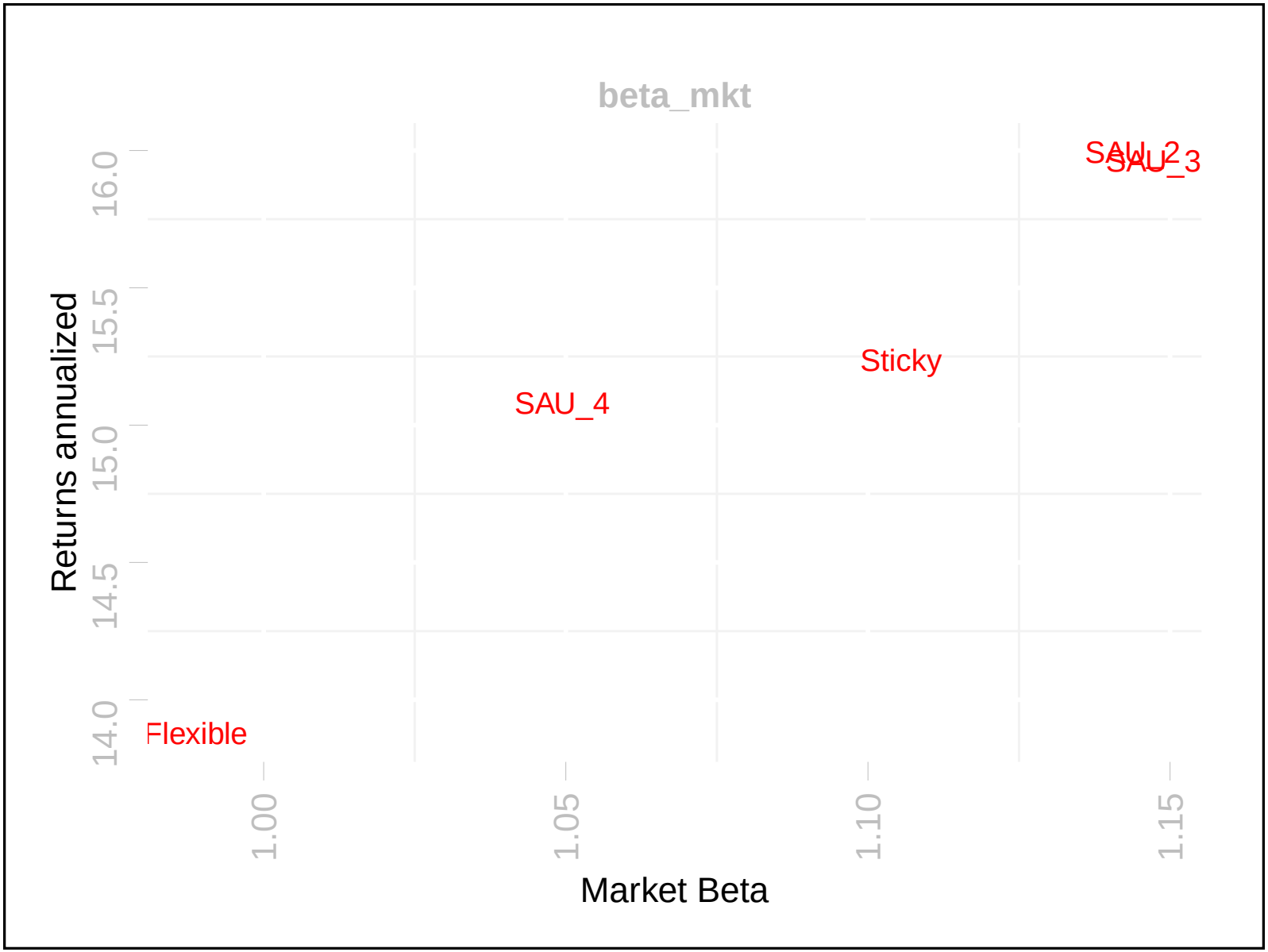
Returns lining up with beta:

- Sticky price portfolios line up nicely with beta
- Set of test assets that prove the CAPM is true!
- It does not disappear after controlling for market beta: puzzling?

Testing the monetary policy hypotheses

- Link with surprise changes in federal funds rate.
- What about SVAR monetary policy shocks? Better match with the model
- Monetary policy regimes: different results pre/post-Volcker
- Two periods- two different results: regime of monetary policy: shocks are different!
  What are the results on pre-Volcker period 1963-1982
  see Campbell et al. for the link between monetary policy regime and risk premia

Beyond asset pricing: monetary policy!



Beyond asset pricing: monetary policy!

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Monetary policy and nominal rigidities

- Dig deeper using the data into the mechanism?
- What generates sticky wages at the firm level. Price setting is an optimal decision for the firm.
- Need for more micro foundation of price settting mechanism: menu costs is a good start beyond menu costs.
- Classic optimal view of menu costs: if they matter for the cost of capital, why firms keep them sticky? If they do not matter then we should not observe it in prices (besides omitted variable).
- monetary policy shocks: do we think about changes in federal funds rate or other types of monetary policy shocks: usually identified using a VAR.

Some tests of the mechanism

- Is this a very high frequency mechanism?
- Michael looks at the impact on returns of Fed policy announcement

I cannot look at real effect of sticky prices at the firm level:

- Effect on profitability given both firms: ground some exogeneity of the effect
- What about DSGE monetary policy shocks
- Test across industries with different price setting behavior: interaction with competition

Conclusion: Great paper

- Novel cross-sectional asset pricing result: **Sticky price firms have higher returns**
- Role of nominal rigidities due to monetary policy shock?
- More investigation needed to understand precisely the mechanism