Discussion of Corsetti, Meier and Müller
"What determines government spending multipliers?"

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Federal Reserve Board

ESSIM
Tarragona
May 27, 2010

Summary of paper

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- Econometric approach; first step is to estimate linear spending rule

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  for a set of macrovariables x using contemporaneous and 2 lags of $\hat{\varepsilon}_{t,i}$. Dynamics assumed to be captured by $x_{t-1,i}$

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  - Notice that the effects on g_t are also computed in the second step

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Main results

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2. Show that estimated positive multiplier is driven by financial crises; in financial crises they find a multiplier about 2, for non-financial crisis periods, multipliers essentially 0

Discussion outline

- Comments on the econometric approach
- Suggestions for additional conditioning dummies
- Interpretation of financial crisis multipliers
- Concluding remarks

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  - Bottom line, why not a panel VAR approach?

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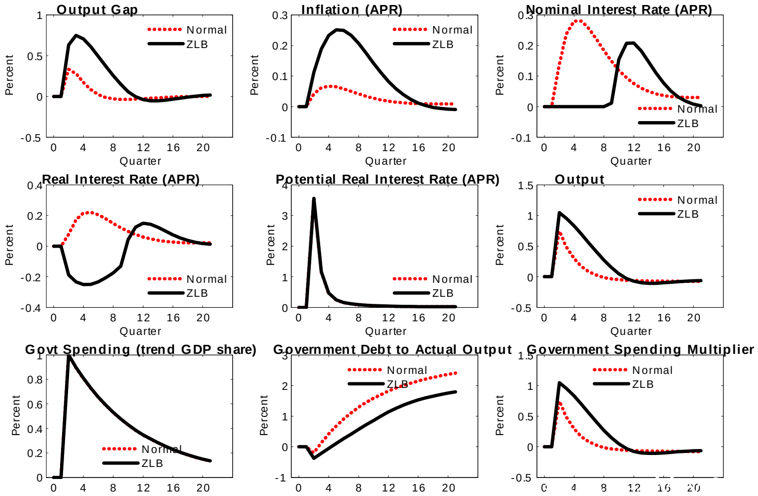
- Monetary accommodation could be the explanation of the outsized multipliers that you obtain in financial crisis periods
  - Below I Show fiscal multipliers in a version of the CEE/SW model in next slide, with and without monetary accommodation

Dynamic responses to fiscal spending shock in the CEE/SW model

Effects in normal times and when policy is in a 8 quarter liquidity trap



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- Results suggestive that an inflation targeting, non-inflation targeting dummy classification could be of interest to study

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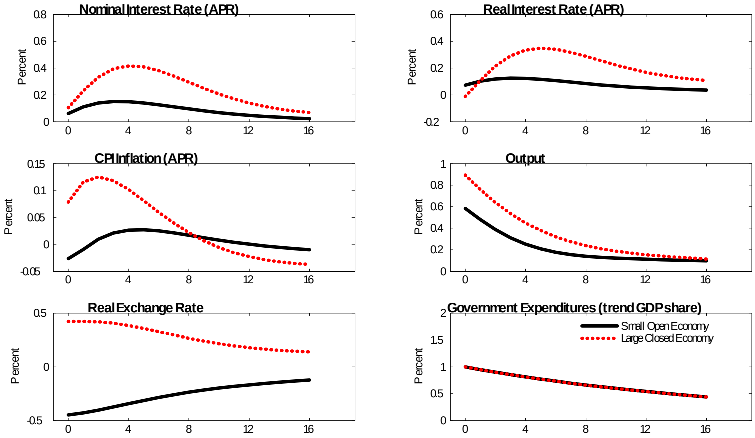
  - Apart from this, standard symmetric parameterization - "sophisticated" calibration

Role of openess according to New Keynesian two-country model

Dynamic effects of government spending hikes of 1 percent in "US" and "Sweden"



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Interaction effects between openess and financial crisis periods

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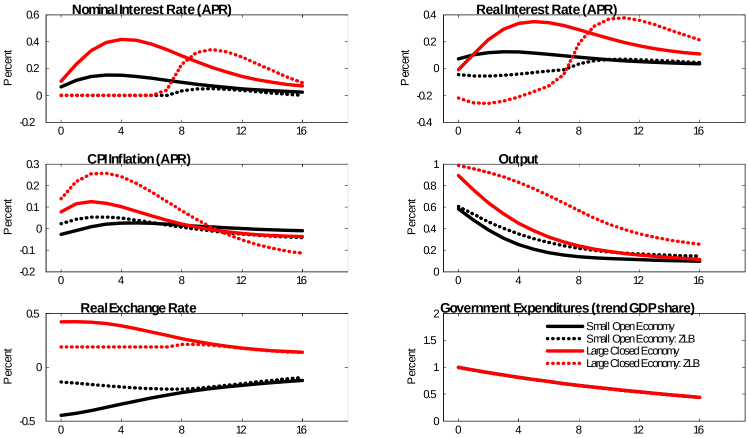
  - Assume duration of liquidity trap to be 8 quarters without any fiscal spending

Role of openess in a New Keynesian model under alternative monetary responses

Spending multipliers in more closed and open economies in normal times and in a 8 quarter liquidity trap



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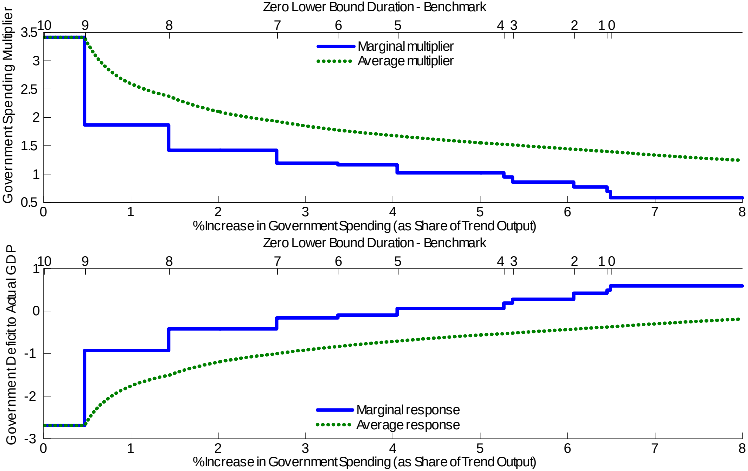
Multipliers in CEE/SW closed economy model with KH

Marginal and Average spending multipliers in a liquidity trap with endogenous exit



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    - Build credibility for multipliers by reporting results for the real interest rate

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- When all is said and done, I believe it will make a very nice contribution to the literature