Discussion of “Stock Market Cross-Sectional Skewness and Business Cycle Fluctuations”
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What the Paper is About

- Financial Sector Events $\Rightarrow$ Future Macro Dynamics
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- Financial Sector Events ⇒ Real Economy
- Cross-sectional Stock Market Skewness in Financial Firms ⇒ Future Macro Dynamics
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Overall Assessment

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- Rigorous Theoretical Model
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- ... yet some lingering issues
Empirics

- Differentiate across institutions’ type (commercial, investment banks) and size (large, small)
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- Positive v/s Negative Skewness: Do both predict equally well (and same impact)?
Empirics

- Differentiate across institutions (commercial, investment banks) and size (large, small)
- Positive v/s Negative Skewness: Both Predict equally well (and same impact)?
- Stock v/s Bond Returns, financial firms
Focus on the paper: Credit Demand/Credit Supply
Credit Supply: Financial Conditions, Bond Premium, VIX, Risk Aversion
Credit Demand: Banks’ ROA, Banks’ Lending Standards ???
Different Policy Implications...

Excessive Credit Supply, Excessive Investment (Real Estate), Excessive Risk Appetite $\Rightarrow$ Banks’ Losses

Different Story from the Financial Accelerator (Bernanke, Gertler, Gilchrist, 1999)

“Instability from Beliefs”: Genniaoli, Shleifer (2018), Over-Optimism followed by Revision of Expectations: Behavioral Story