

“Information Frictions and News Media in Global Value Chains”

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Discussion by Alejandro Cuñat

General impression

- The paper explores the role of information frictions in the context of the international transmission of business cycles.
- For believers in the labour theory of value, the paper should be worth a lot given the amount of involved work: model, data collection, estimation, indirect inference, simulation, you name it,...
- For mainstream economists, the marginal utility of reading the paper divided by the opportunity cost of time will be pretty high:
 - Original
 - Thought provoking
 - Informative
 - Relevant

Background

- In the presence of imperfect information, economic agents' actions are a function of their expectations.
- Assuming all agents have access to the same information, the expectations that matter are those about fundamentals.
- Assume instead:
 - the expected returns to the an agent's actions depend on the actions of other agents (customers, suppliers);
 - different economic agents have different information sets;
 - then an agent's actions not only depend on her own expectations on fundamentals;
 - they also on her expectations on other agents' expectations, etc.
 - This implies that, in addition to fundamentals, “noise” may also affect the business cycle.

Information frictions in the context of GVC

- These ideas are explored within the context of production networks and, more specifically, global value chains.
- The international context is very helpful here:
 - Production networks have a very important international component.
 - Informational frictions are more apparent than in the closed economy.
 - Distinction between private (based for example on bilateral interaction) and public (news) information
- All this enables the authors to:
 - Give empirical contents to some economic intuitions.
 - Think about the relevance of the corresponding aggregate implications in a very stylised GE model.

Economic intuitions

- Effects of fundamental (productivity) shocks are dampened via the production chain. \Rightarrow The more downstream a country-sector from the country-sector suffering the shock, the smaller its response.
- The dependence of more downstream country-sectors on public news relative to the private signal is larger.
- Downstream firms need to think about higher-order expectations, and public news is more informative about those than private signals.

Economic intuitions: some remarks/questions

- How does one think about private signals at the country-sector level?
- Not all firms within a country-sector are involved in international activities.
- Is it simply that the country-sector's large firms (which do engage in international activities) account for much of the country-sector?
- Arm's length trade vs. intra-firm trade: is private info more available in the presence of multinationals?
- Either way, there may be some cross-industry variation in the importance of private info, depending on the industries' characteristics.

Data and empirical patterns

- Key variable: frequency with which each country-sector in the sample (1995-2020, 131 country-sectors) is mentioned by the main newspapers (El País, FT, NYT,...) in the country sample (G7 plus Spain).
- Correlations:
 - News coverage is heterogeneous, and positively but weakly correlated to sector size or GVC participation.
 - Greater news coverage is associated with smaller forecast errors.
 - Greater news coverage is associated with higher business-cycle comovement between country-sectors.

Data and empirical patterns: some remarks/questions

- News contents is not analysed (for a good reason):
 - Sometimes news is “informative”, but other times it can be a source of uncertainty itself.
 - The fact that greater news coverage is associated with smaller forecast errors suggests the former has more relevance.
 - How (auto-)correlated is news?
- Why “generalist” newspapers?
 - More specialised info is available: Bloomberg, Reuters,...
 - Country coverage could be expanded.

Calibration and simulations

- Indirect inference: correlations above used to calibrate the model's parameter that represents the precision of public signals (as opposed to noise) of country-sector productivity.
- Counterfactuals (in line with the reported empirical evidence):
 - World economy less reactive to productivity shocks in the presence of informational frictions.
 - Impact of greater news coverage on shock transmission stronger when a pair of country-sectors is more closely connected with each other through trade.
 - The importance of noise shocks is increasing in the measured remoteness of a country-sector.

Final remarks/questions

- The paper is silent about welfare and policy implications.
- How should policy-makers behave in order to reduce the volatility associated to noise-driven fluctuations?
- GVC's are not “immobile”: does their evolution help us understand changes in the comovement of aggregates?