Discussion on
“Monetary Integration under Household Heterogeneity and Bounded Rationality”
by Brzoza-Brzezina, Galiński, and Makarski

José-Elías Gallegos

Banco de España

BUT the views expressed do not necessarily reflect the position of Banco de España

XXII Emerging Markets Workshop, November 27-28, 2025

Overview

- What have we seen?
- Smets-Wouters + TANK (Bilbiie) + BR (Gabaix) + SOE (Gali-Monacelli)
- Why BR?
  - "[...] if income is expected to increase in the future, a behavioral agent anticipates only a muted version of that increase due to cognitive discounting. As a result, the agent raises consumption by less than a rational agent would. In equilibrium, this leads to a higher accumulation of financial assets relative to the rational expectations benchmark"
  - TANK plays against you!
- Accessing the EA, worth it or not? Depends on REER!
  - Foreign shocks cushioned by exchange rate depreciations vs. EA, not feasible inside the euro

Questions

1. Beliefs are treated as a wedge to better fit the model to the data
   - give a belief interpretation, Coibion-Gorodnichenko (2012, 2015) regression for example [as in Afsar et al. (2024)]

$$x_{t+h} - \mathbb{E}_t x_{t+h} = \alpha + \beta \left(\mathbb{E}_t x_{t+h} - \mathbb{E}_{t-1} x_{t+h} \right) + \varepsilon_t$$

2. Accessing a currency union: cons (untargetted monetary policy) and pros (increased trade)
   - national monetary policy shock and risk premium (UIP) disappear
   - but also risk-sharing (eurobonds)? What about moving from incomplete financial markets to perfect risk-sharing?
   - but also increased trade due to lower exchange rate uncertainty?
3. Output: where is the intrinsic persistence coming from (in BE)? capital? Did not follow the FOC's loglin, provide intuition
   - In general, the BE model produces more inertia. Why? Intuition!
4. Steady-state government spending (% GDP) $=$ 0.2, around 0.5 in the data $\rightarrow$ can affect the shock decomposition

Typos

- Eq. 1: subindex $t + k$
- Eq. 12: some variables not defined
- Include the table of estimated parameters on pg. 17
- Fig. 1: have the same scale on the vertical axes (for visual comparison!) Also, write the name of the variables (now “logy”)