Discussion of Mendicino, Nord, and Peruffo

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Summary

- Heterogeneous effects of bank equity declines on consumption and welfare across households
    - Measure of banking distress, including but not limited to banking panics
- Households at the bottom of the income distribution suffer relatively more
    1. Losses in labor earnings
    2. Increase in the cost of borrowing

Embedment in the literature

- **Real effects of banking shocks**
  - Households affected by credit supply & firm-level investment and employment
    (e.g., Chodorow-Reich, 2014; Huber, 2018)
- **Bank-based transmission of contractionary monetary policy**
  - Direct effects vs. GE responses of prices and wages
    (e.g., Holm, Paul, and Tischbirek, 2021)

The banking sector

What do bank equity declines measure?

Bank equity declines (Baron, Verner, and Xiong, 2021)

- Banking crises, not necessarily panics (bank runs)
- Aggregate shock

Adverse shock to bank net worth

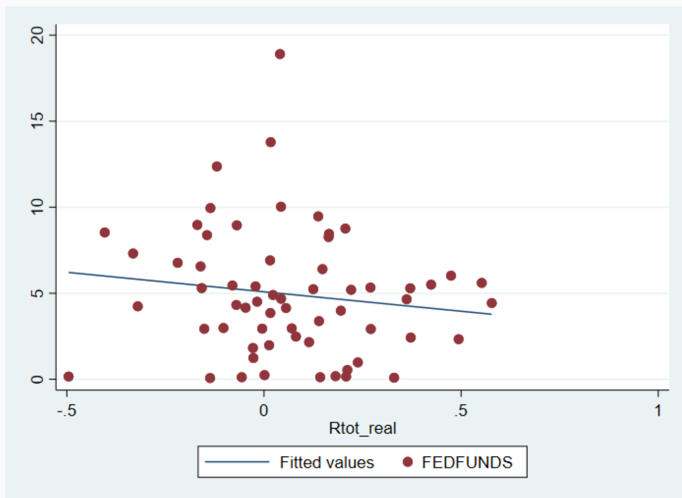
- At the core of many transmission mechanisms
- Funding costs $\Uparrow \Rightarrow$ Banks' profits $\Downarrow \Rightarrow \mathbb{E}$[Net worth] $\Downarrow$
  - Transmission of monetary policy
    (Gertler and Kiyotaki, 2010)
  - Effects of micro- and macroprudential regulation
    (Repullo and Suárez, 2013; Jiménez et al., 2017, Begenau, 2020)

Transmission to household consumption

- Heterogeneous household exposure due to
  - Income composition (labor vs. financial income)
  - Loans vs. deposits (with banks)

$\Rightarrow$ Decomposition feasible if shock emanates from disruption in the banking sector

But does it?



Annual data from 1954 to 2017
Sources: Baron, Verner, and Xiong, 2021; FRED

Endogenous declines in bank net worth

- Transmission of contractionary monetary policy through banks' balance sheets
  - Duration mismatch and concentrated depositor base (Silicon Valley Bank)
- Consumption effects not only due to GE effects
  - Households affected by higher cost of borrowing, but effect amplified by tightening of firms' credit constraints

What heterogeneity?

Endogenous matching

- Current setup reflects a reduced-form way of capturing
  - Bank-household matching: poorer households connected with weaker banks
  - Firm-household matching: impulse responses control for non-financial returns
- Bank-firm matching matters due to bank risk taking and loan-portfolio rebalancing
  - Bank credit $\Downarrow$
    $\Rightarrow$ Some firms' credit, investment, & employment $\Downarrow$

Potential role for firm-level responses

- Heterogeneous exposure to credit contraction
- Heterogeneous labor market effects for households
- In this paper: determined by poor households' greater dependence on labor income
  - Fairly similar wage effects across the income distribution
- Extensive margin (employment effects) more relevant at the bottom
  (Bartscher, Kuhn, Schularick, and Wachtel, 2022; Bergman, Born, Matsa, and Weber, 2022)
  - Due to downward wage rigidity of low-paid workers
    (Moser, Saidi, Wirth, and Wolter, 2023)
- Intensive margin (wage effects) more relevant at the top

Conclusion

- *Very* interesting paper
- Useful mapping from bank equity declines to other transmission channels via bank net worth
- Role of endogenous matching of households, firms, and banks not always negligible
    - Especially for employment and wage effects