

Workshop on
“Money, Finance and Banking in East Asia”

Training Centre of the Deutsche Bundesbank, Eltville
5-6 December 2011

William Speller
Bank of England

Discussion of
**“Why do prices remain stable in the bubble and bust
period”**



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Why Do Prices Remain Stable in the Bubble and Bust Period?

By Takeshi Kimura

Discussion by William Speller

3rd Workshop on Money, Finance and Banking in East Asia

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Overview

- An interesting paper which provides a new approach and applies a novel dataset to a genuine puzzle.
- Concise, well-written and easy to follow line of argument and evidence.
- Nice blend of micro theory, emprics applied to a macro puzzle.
- Worth reflecting on the explanations for results further because there may be other candidate explanations.



Summary and key findings

- This paper assesses the cyclical impact of financial constraints on Japanese firms' pricing behaviour and, in turn, on aggregate prices.
- *What is the impact of financial constraints of firms' pricing behaviour?*
 - → *Counter-cyclical*
- *How does this impact differ by industry and firm type?*
 - → *Effect is stronger for large firms which produce differentiated goods.*
- *What is the effect on aggregate price changes?*
 - → *This behaviour creates significant price rigidities.*



Contributions

- Test for cross-industry differences in the effects of financial constraints on pricing behaviour.
- Study of manufacturing sector as a whole, not just individual firms.
- Consider behaviour of firms of different sizes.
- Use of the Tankan – a direct measure of financial constraints.
- Results which differ from similar studies of pricing behaviour in the UK and US.



Comments and discussion

- Cross-industry differences are fascinating and worth further, more general discussion. Could the author draw out tentative conclusions on how a country's macroeconomic structure (e.g. share of tradables vs. non-tradables) is likely to determine the effects of financial constraints?
- Cross-industry differences are probably related to the level of competition (or demand elasticity). Why some market demand is more/less elastic (number of firms, firm size, switching costs) is a secondary issue, so the author could refrain from forming a hypothesis on this.
- Is it true that large firms can lock-in customers but small firms cannot? What about 'local' monopolists?



Comments and discussion

- Has the Tankan been used in other literature?
- Omission of FC_t and inclusion of FC_{t-1} is only appropriate if FC_t does not contemporaneously affect OP_t . Has solving simultaneity bias led to (potentially more serious) omitted variable bias?
- Perhaps there could be more discussion of why the results differ to US and UK studies.
- Moreover, some more information on the existing explanations for the Japanese puzzle would be helpful for readers.
- The (very interesting) policy discussion in the conclusion could be better tied into the rest of the paper.



Thank you



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