Discussion of "Mortgages, Monetary Policy, and the Great Inflation of 2021-2024" by Aaron Hedlund, Kieran Larkin, Kurt Mitman and Sarder Ozkan

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E1 Macro Workshop, 2025

Overview

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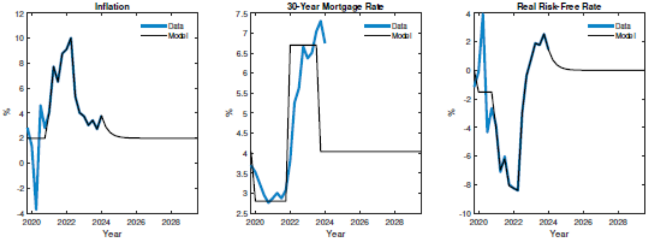
Asks: 1. If/how much monetary policy contributed to the housing boom, 2. Role of mortgage structure in house price dynamics, 3. Whether mortgage structure can explain differences in cross-country responses. 4. What are the distributional effects.

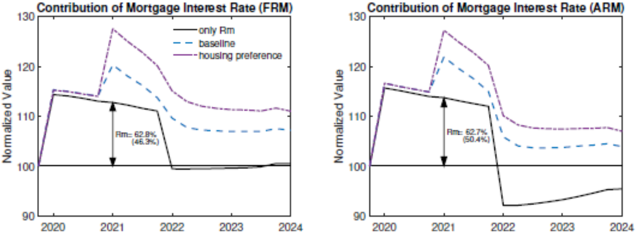
Overview

- Shocks

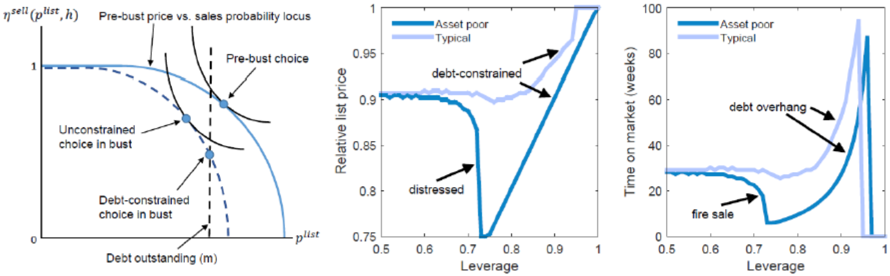
FIGURE 6 – Great Inflation shocks



- House prices: large share explained by mortgage rate movements



Why housing search is different?



- Housing search - trade-off between *listed prices* and *sale probabilities*.
- In combination with mortgages - firesales, long selling delays, endogenous illiquidity amplifications, model delivers comovement of prices and sale volumes - things that a fixed cost model cannot account for.

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- Role ARM versus FRM in explaining cross-country differences in house price response in 2021-2024.

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  - Are there any series that a fixed cost model cannot explain? Such as foreclosures, selling times?

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- Understanding ARM versus FRM mortgages in a housing search model.
  - What are the exact economic channels from inflation and mortgage rates to household choices?
  - Role of housing search in driving the difference between ARM and FRM. Divergence of foreclosures and sales rates suggests that housing search plays a role!

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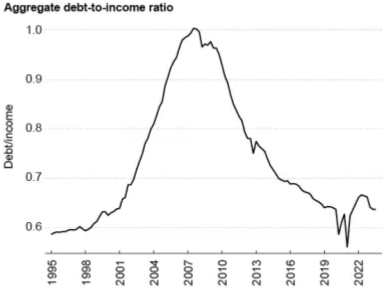
- Role ARM versus FRM in explaining cross-country differences in house price response in 2021-2024.
  - Is it mortgage structure or other factors affecting monetary transmission?
  - Or country specific shocks?

2020s versus 2000s boom



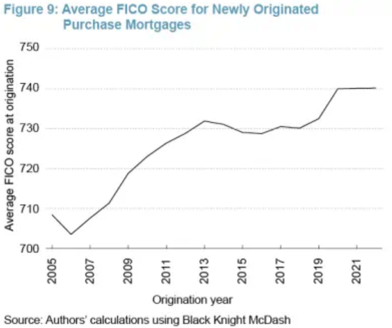


Figure: https://www.clevelandfed.org/publications/economic-commentary/2024/ec-202404-comparing-two-house-price-booms.

- Debt overhang and excess leverage relevant in 2000s but not recently.
- Mechanisms based on household leverage (Garriga & Hedlund 2020, Kaplan, Mitman & Violante 2020) may not be as relevant for the current episode.

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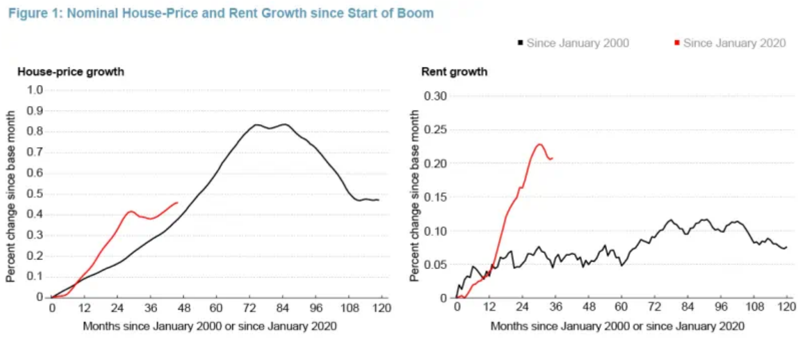

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- Rents hard to ignore in 2020s. Suggesting that dynamics driven by a common shock affecting both renters and owners? Could rental rate be included as another exogenous sequence?

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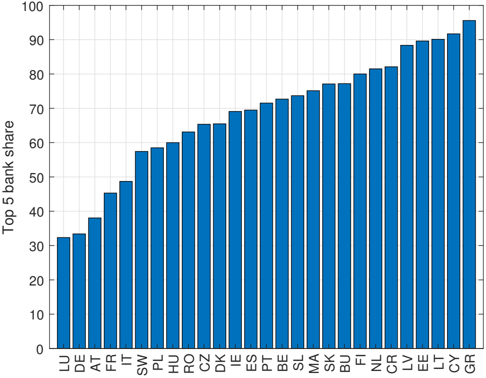

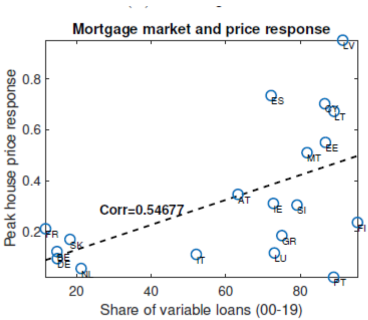

Stronger loan rate pass-through in less competitive markets

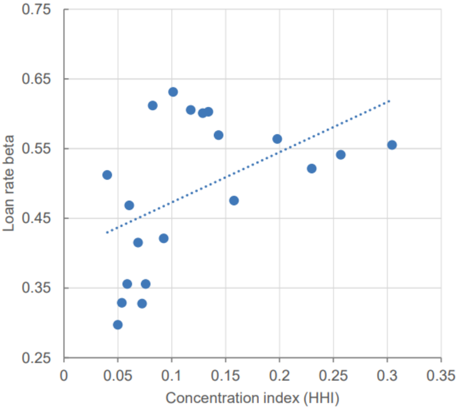

Figure: Source: Banking structural statistical indicators (SDW) and ECB staff calculations https://www.ecb.europa.eu/press/key/date/2024/html/ecb.sp240425 e762e980c3.en.pdf.

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- Nice paper, so many potential uses! My suggestion is to narrow down.