Discussion of Risk, Uncertainty and Monetary Policy by Geert Bekaert, Marie Hoerova and Marco Lo Duca

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The Financial Crisis of 2008

Summary

- The authors analyze how monetary policy affects risk aversion and uncertainty using a VAR model.
- They decompose the VIX in two components:
  - A component that reflects actual expected stock market volatility; and
  - A variance premium that reflects risk aversion.
- This decomposition allows to identify which component drives the comovements between the monetary policy stance and the VIX.

Results

- A lax monetary policy decrease risk aversion in the medium run.
- Uncertainty does not respond to monetary policy.
- Monetary authorities react to periods of high uncertainty by easing monetary policy.
- These results are robust to controlling for business cycle movements and alternative measures of monetary policy.

Comments

- The findings of the paper seem to be robust. The authors are very carefull and control the results by several factors.
- Question: why don’t you analyze different schemes to decompose the VIX?
- For instance, instead of realized volatility, we can use a GARCH model to estimate the conditional volatility.
- This decomposition is an important point of the paper. Shouldn’t it be included in the robustness check?

Comments

- Minor points:
  - Is section IV really necessary?
  - The conclusion is not sufficiently concise. According to Cochrane (Writing Tips for Ph. D. Students, 2005):

    "Conclusions should be short and sweet"