
Monetary Policy, Asset Prices and Consumption in China

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Research Objective

- Study the wealth channel in China as the author has identified a **lack of research** in the area affecting emerging economies and especially the Chinese economy.
- Illuminate **dynamics between monetary policy, asset prices and consumption.**
- **Study whether the wealth channels exists in China.**

Research Findings

- **Loosening of monetary policy leads to higher asset prices in China.**
- **Urban households' consumption reacts positively to a rise in either residential or stock prices, where effects concerning stock prices are weak.**
- The **wealth channel remains weak** in line with results for advanced economies as demonstrated by existing literature in the area (Ludvigson et al., 2002)

General Comments

- The introduction needs to **justify the research questions** and provide further explanations to the analysis of the Chinese economy and the wealth channel.
- There is some discussion with regard to the Chinese stock market slow down in 2008 but there is no comment with regard to the **US crisis and its effects on China.**
- **The methodology is barely explained** – there is not justification of the Structural VAR and why has been chosen.

General Comments cont.

- **Lag length selection** based on AIC but not justification for this is given. In addition, the number of lags are pretty high what creates distortions on the estimation.
- **Data Frequency?**
- **Cointegration** based on Johansen test, could be complemented by alternative cointegration test – bivariate approach to find out the cointegration vectors.

General Comments cont.

- Chow Test for **Structural Break?**
Alternatives like Andrew-Quandt, Bai and Perron, etc., will provide better results.
- Get the residuals for a **common break point**, weak results as structural breaks are being ignored.
- **Volatility** on the Chinese stock market is mentioned, but lack of explanations on how this variable is integrated in the estimation.

Thank you