Comments on J. Fisher’s “Why Does Household Investment Lead Business Investment Over the Business Cycle?”

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Goal of the paper: Build a model consistent with the behavior of residential and non-residential investment over the business cycle.

Three stylized facts:

- Residential investment leads business investment.
- Residential investment is more volatile than business investment.
- Co-movement between both types of investment.

Jonas’s paper hits all three targets!
Innovation with respect to previous models: Household capital useful in market production.

Houses and household durables make workers more productive.

Double motivation:
- Re-generation (Why not food, health, . . . ?)
- Co-location (I like this one better).
Improvements vs. new homes behave the same way, helps with Jonas’s dual interpretation.
Why it works:

- Investing in household capital helps getting:
  - Home-produced goods.
  - Market-produced goods.

Result: A positive $\zeta_t$ shock leads to higher investment of both types and proportionately higher household investment.
Choice variables: (p. 7) optimize by choosing $k_{t+1}, s_{1,t+1}, s_{2,t+1}, \ldots, s_{J-1,t+1}, s_{J,t}, h_{n,t}, h_{c,t}$.

Time-to-build technology:

- Choose to build a plant, ready to produce in $J$ periods.
- Pay 1/4 in each period.
- $s_{J,t}$ – choice of plant.
- $s_{J,t-1} \rightarrow$ plant chosen the previous period.

- By law of motion $s_{J,t-1} = s_{J-1,t} = s_{J-2,t+1}$. Still a "state".

- Choose $c_{m,t}, n_{h,t}, n_{m,t}, h_{n,t}, s_{J,t}, h_{t+1}$ given $h_{t}, k_{t}, \{s_{i,t}\}_{i=1}^{J-1}$.
Upper-right impulse response in Figure 5: Why that delay (even decrease) in business investment?

Technology implies incentive to invest in both types.
Overall, a simple (appealing) model that reconciles RBC theory with “idiosyncratic” investment behavior.