Comments on J. Fisher's "Why Does Household Investment Lead Business Investment Over the Business Cycle?"

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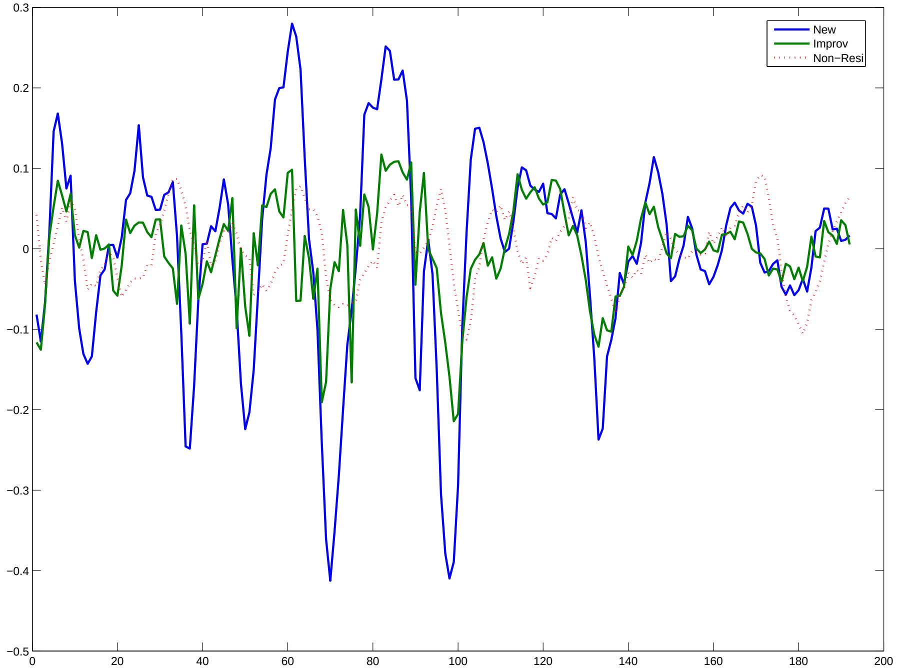
- Goal of the paper: Build a model consistent with the behavior of residential and non-residential investment over the business cycle.
- Three stylized facts:
  - Residential investment leads business investment.
  - Residential investment is more volatile than business investment.
  - Co-movement between 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 z_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.

- $s_{J,t-1}$ – 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 ($\therefore$ appealing) model that reconciles RBC theory with “idiosyncratic” investment behavior.