

Discussion of “The demand for liquid asset with uncertain lumpy expenditures”

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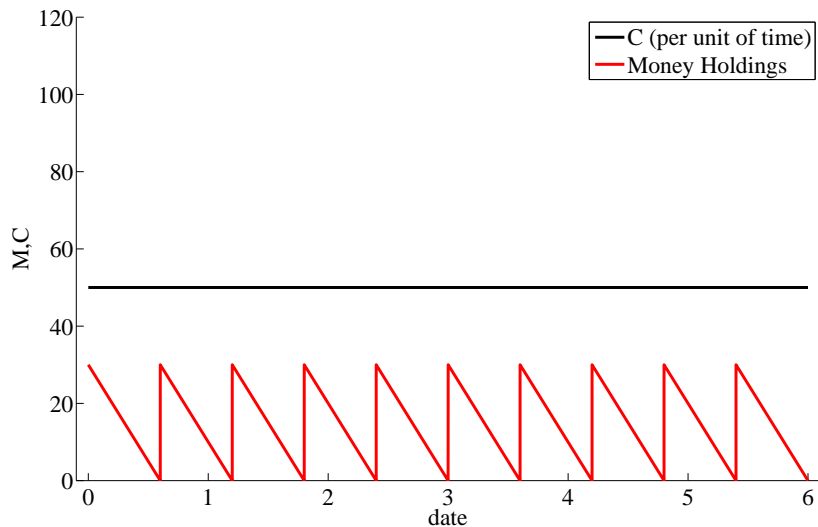
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The views expressed are those of the author. No responsibility for them should be attributed to the Bank of Canada.

Summary

- Excellent paper
- Intuitive results
- Mathematically challenging
- Deeper understanding of money demand
- Potential importance for monetary policy?
- Possible return of importance of money demand?
- Interaction with financial innovation

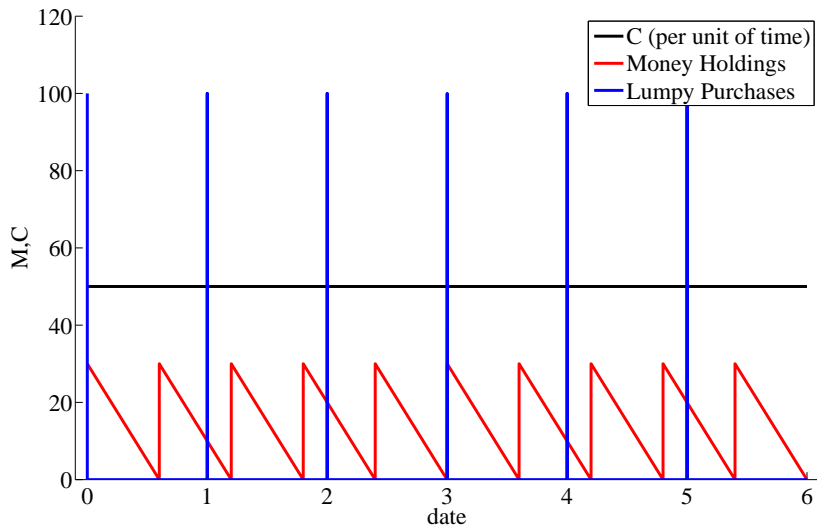
Traditional Baumol-Tobin



Add in Lumpy Purchases

- Normalize the (expected) distance between lumpy purchases to one, $\kappa = 1$.
- Provides alternative intuition to the workings of the model.

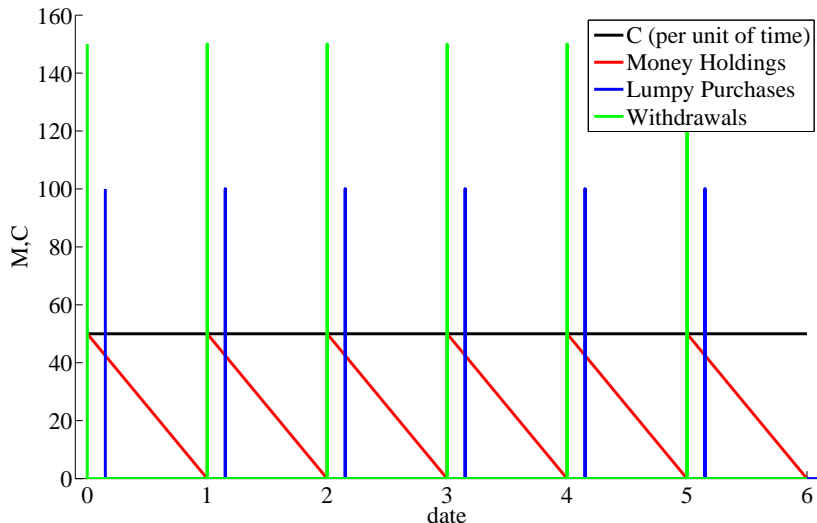
Add in Lumpy Purchases



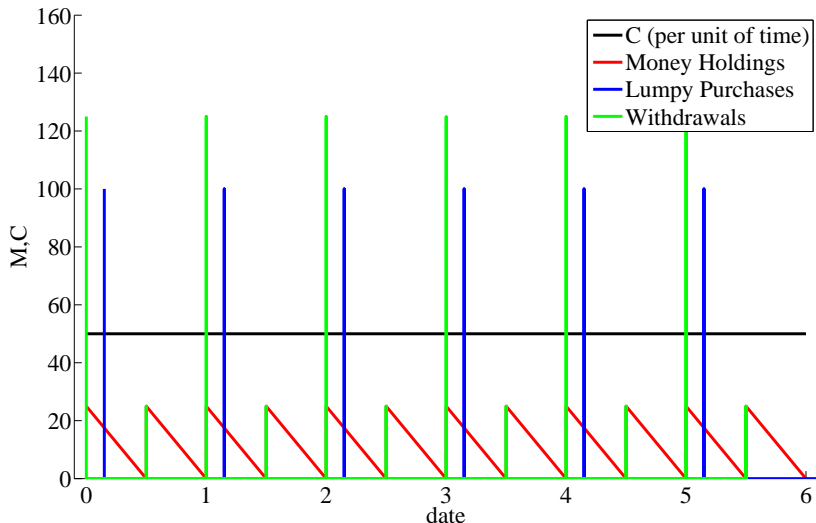
Add in Lumpy Purchases

- Strong incentives to align withdrawals with a lumpy purchase
- Seems to make the money holdings problem an integer problem
- Two Questions:
 - ▶ to withdraw between or not to withdraw between?
 - ▶ to withdraw for more than one lumpy purchase?
- Given my numbers, no incentive to withdraw for more than one lumpy purchase, return to this later.

Only withdraw at Lumpy Purchases



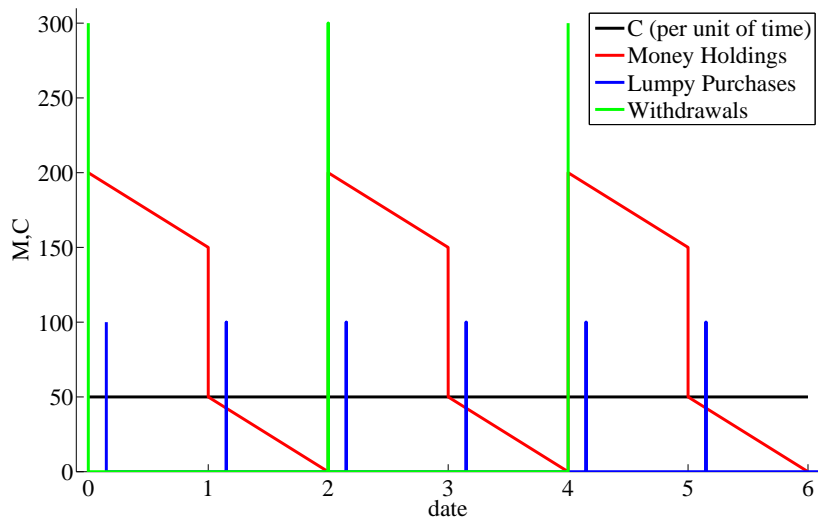
Withdraw between Lumpy Purchases



Withdraw for more than one lumpy purchase?

- High cost of withdrawing (b)
- Low lost interest (R)
- Also if lumpy purchases more frequent

Withdraw for more than one Lumpy Purchase



Financial Innovation and Lumpy Purchases

- Did financial innovation remove effects of lumpy purchases for money demand?
- Lumpy purchases probably important for cyclical movements in the economy.
- Lumpy purchases are probably interest rate sensitive.
- Can this explain falling importance of money demand for monetary policy?
- Implications for the interest rate elasticity of money demand
 - ▶ Current estimates are low, from 0.5 to nil e.g. Lippi and Secchi (2009)

Financial Repression

- Falling nominal interest rates
- Banks move to fee based system
- Would seem to have effects on money demand
- Can these effects lead to lumpy purchases once again being important for money demand?
- Going forward, will monetary policy have to re-examine money demand?
- This seems to be important for large non-financial corporations.

Conclusion

- A nice paper
- Want to see it applied to changing intermediation environment!
- Lumpy purchases are central to business cycle movements.