

Ph.D. in Economics

Cycle XXVIII

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Essays on Secular Stagnation

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Thesis Defense

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Abstract

The dissertation develops, in two chapters, two themes related to Secular Stagnation.

In Chapter 1, I focus on Secular Stagnation and Bubbles. My starting point is an estimated vector-autoregression model and I provide empirical evidence on the existence of stock market bubbles and their response to a deleveraging shock. I show that a deleveraging shock triggers a persistent decline in loans and output, while stock prices fall on impact and only partly recover afterwards. By decomposing the stock price index within its fundamental and bubbly component, I show that its behaviour is almost entirely explained by the latter. I propose an OLG model and I show that bubbles exist if agents are financially constrained. The bubbly steady state is unstable and, after a deleveraging shock, the economy eventually reaches the undesirable bubbleless steady state, where Secular Stagnation may arise. I show that, in a sticky prices environment, by adopting an accommodative stance towards bubbles, monetary policy can ensure the stability of the bubbly steady state and the stationarity of the dynamics around it.

In Chapter 2, I focus on Secular Stagnation and Market Structure. I address the question on whether the market structure affects the equilibrium level of the real interest rate, defined as the rate consistent with full employment and stable inflation. I provide an empirical and a theoretical analysis on the link between the markup, as a proxy for the market structure, and the equilibrium interest rate. I uncover some evidence that higher markups are associated with lower real rates and that more market friendly economies display higher interest rates. I propose an OLG model with monopolistic competition to interpret these findings. I focus on the effects on the equilibrium of a change in market structure, both in an exogenous and endogenous markup framework. I show that an increase in the markup puts a downward pressure on the equilibrium interest rate and the economy enters Secular Stagnation. The key transmission channel works through the market for capital.