



Network for Studies on Pensions, Aging and Retirement

Discussion: Funding-Shortfall Risk and Asset Prices
in General Equilibrium
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My summary

- Equilibrium asset pricing model
 - exogenous dividend process (binomial)
 - CRRA agents $\gamma = 2$
- Innovative element is presence of constrained investors:

present value future consumption

\geq

φ times present value future minimum payouts

Comment 1

- Current regulation usually probability based
 $P\{\text{'underfunding'}\} \leq 0.5\%$
- Paper uses this formulation in text
 - “... the effect of funding-shortfall risk on asset prices is determined primarily by the probability of a shortfall”
- ... but formalization, see (7), states: present value consumption larger than φ times present value liabilities

Comment 2

- How are the liabilities exactly modeled?
- Paper seems to insist on dynamic value of liabilities “because a given stream of future consumption becomes more valuable in bad states of the world.”
- That makes sense, but what if interest rates are constant?

Comment 3

- “The more constrained institutions, even if they are smaller in size, may have a more significant impact on asset prices, compared to larger institutions that may be unconstrained”
- This remains intuitively difficult to grasp for me: how can small investors have a large impact on prices?

General comments

- Really interesting research question: how does regulation affect asset prices in equilibrium?
- Well-written, though here and there some things less clear