Discussion: Funding-Shortfall Risk and Asset Prices in General Equilibrium
by Majid Hasan

Bas J.M. Werker
IPW 2017
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
  \( \geq \)
  \( \phi \) 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 \( \varphi \) 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