Oil Shocks and External Adjustment

By Bodenstein, Erceg, and Guerrieri
(Fed Board)

Discussion
Alessandro Rebucci
IMF RES
Paper Contribution

- DGE analysis of international transmission of oil shocks
- Alternative assumptions on trade elasticities
- Alternative assumptions on international financial market integration
- Alternative sources of oil shocks
- Alternative assumptions on good price rigidity
Main Results

- Overall TB response depends on the response of non-oil TB with low

- Incomplete markets are crucial

- Source of the oil shock does not matter

- Price rigidity does not matter much
My Comments

- Excellent paper! DGE Analysis well anchored to data and relevant question

- What does it happen with less smart monetary policy responses?

- Paper focuses on TB, but NFA also relevant from a policy perspective

- Indeed, oil price pattern in response to different sources of shocks is different. In addition, non oil-specific demand shocks may have different transmission
Capital gains are an important channel of transmission.
The source of the shock matters
In Sum

- An excellent paper!
- Paper could examine case of non-oil specific demand shock
- Paper could explore role of monetary policy mistakes
- The valuation channel of transmission of oil shocks not modeled yet