Discussion:
Has the U.S. Finance Industry Become Less Efficient?

Atlanta Fed Financial Markets Conference

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15 April 2014

The views expressed herein are those of the author and are not necessarily those of the Federal Reserve Bank of Cleveland or of the Board of Governors of the Federal Reserve System.
Paper Summary

- Multi-sector heterogeneous agent dynamic growth model!
- Calibrated to historical data!
- Finance GDP share high
  - 1\textsuperscript{st} approx: constant unit cost
  - 2\textsuperscript{nd} approx: cost up since 1960s
IT share vs size

GDP share

Finance
Manufacturing
Information
Real Estate & Leasing

FEDERAL RESERVE BANK of CLEVELAND
Cost Curves hide technological change
Technological Change looks like higher costs
Implications?

- Too much finance?
  - overpaid

- Don’t understand sector?
  - (Mehra-Prescott)

- Where’s the market failure?
  - (Plott, Pollution)
  - Model?
Challenges for research

• What determines participation?
  - Active vs. passive managed

• What good is risk management?
  - derivatives