Discussion of

Demand Elasticity in Dynamic Asset Pricing

By He, Kondor, and Li

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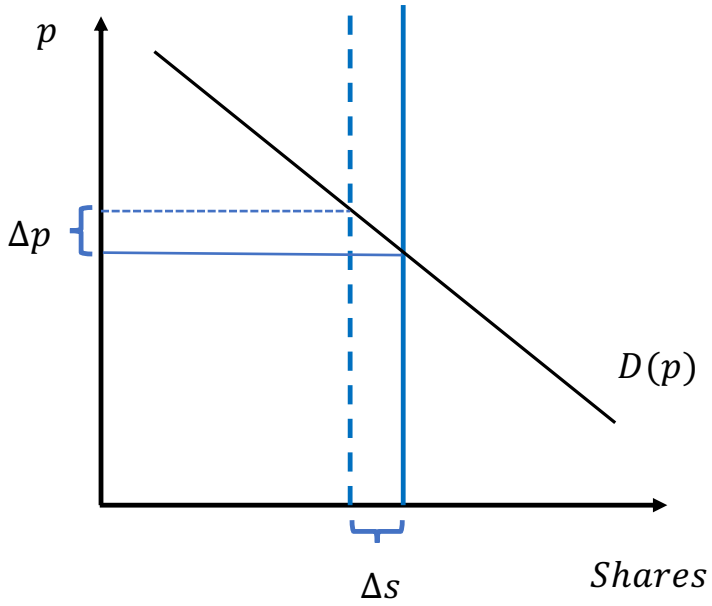
Discussant: J

Background: estimating demand elasticities via supply shifts

- Investor demand: $D(p) = -b \cdot (v - p)$
- Market clearing:
  - $D(p) = s \Rightarrow p = v - \frac{s}{b}$
- **Identifying assumption:** $\Delta s \rightarrow \Delta p$, but no change in v or b
- Goal is (usually) to do counterfactuals



Issue: Δs almost always comes with other changes

- Conclusion: *estimated* elasticity ≠ *conceptual* elasticity

- *Cross-sectional* complications:
  - Fuchs-Fukuda-Neuhann (2025, 2026), Haddad-He-Huebner-Kondor-Loualiche (2025)

- *Dynamic* complications:
  - He, Kondor, and Li (2026) ← **this paper**
  - Also, van Binsbergen-David-Opp (2025), Davis, Kargar, Li, and Silva (2026)

This paper: two dynamic complications

- What happens if J dumps shares, and ZG has to absorb them?

- 1) **Endogenous volatility:** return vol ↑, which decreases ZG's willingness to take risk and *reduces* his demand elasticity

- 2) **Hedging demand:** (ZG does intertemporal optimization)

Comments

1) Theory is *impeccable*

- The only full GE analysis of demand elasticities in a dynamic model

- If you are interested in understanding demand effects in asset pricing, this paper is a must read

2) Empirical relevance?

- Calibration: a non-negligible gap between estimated vs "true" elasticity

- However, model assumes that investors **know** the structure of the world
  - E.g. when supply shock hits, investors know its nature/magnitude/persistence, the utility function of those who absorb it in equilibrium, etc…

  - What if investors know less?

My two cents

- 1) Endogenous risk effect – *still realistic*
  - Demand: $w = \frac{\mu}{\gamma\sigma^2}$
  - Black (1976) leverage effect: $p \downarrow \Rightarrow \sigma \uparrow$
  - If calibrated to the shock in Ben-David et al (2022), resulting change in demand slope *on the same order of magnitude*

- 2) Hedging demand? – less sure
  - Quantitatively the less important part

3) What elasticity should we estimate?

- This paper compares estimated elasticity vs. two "conceptual" elasticities
- van Binsbergen-David-Opp (2025): estimated elasticity vs "true" elasticity

- **Q:** Is there a "true" elasticity?

- **A:** no. The "right" elasticity is whatever is "*relevant*" to the application

4) How should we go about estimating?

- Let's start with reduced-form approaches
- **Application:** estimate the price impact of uninformed selling 1% of AAPL, a trade that will be reversed in 3 months
  - Quantification: $\Delta p = M \times (-1\%)$
- Consider these candidate estimates ($\widehat{M}$), based on:
  - 1) shocks in Treasuries
  - 2) shocks in U.S. stocks
  - 3) shocks in large-cap U.S. stocks w/ similar persistence
  - 4) shocks in 10 largest U.S. stocks w/ similar persistence in the same month of year…
- **Takeaway:** bias-variance trade-off

Alternatively, (semi) structural approaches

- Full-blown structural approaches are hard to estimate
  - $Q_t = f(P_t, P_{t+1}, everything\ else\ \ldots)$

- Simpler parametrizations?
  - $-\frac{dlog(Q)}{dlog(P)} \approx 1 + \left(-\frac{dE(r)}{dlog(P)}\right) \times \frac{dlog(w)}{dE(r)}$

  - Price pass-through $-\frac{dE(r)}{dlog(P)}$ depends on persistence of price movement
  - If $\frac{dlog(w)}{dE(r)}$ is stable, then this gives a two-parameter specification

Summary

- Serious paper on the GE implications on demand elasticities in a dynamic model
- Main channel plausibly relevant without strong knowledge assumptions
- Raises questions about “what to do going forward”