How (Not) to Identify Demand Elasticities in Dynamic Asset Markets

van Binsbergen, David & Opp (2026)

Discussion by Aditya Chaudhry

The Ohio State University Fisher College of Business

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Many questions hinge on price impact of demand shocks

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- **Asset demand is "inelastic"**

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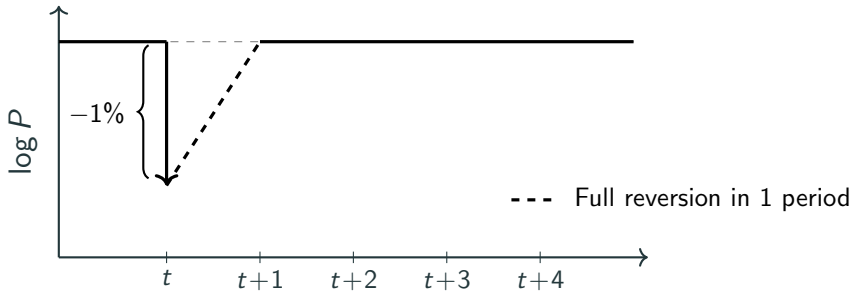

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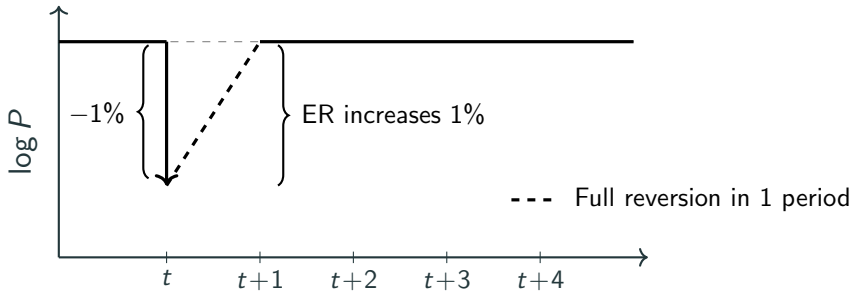

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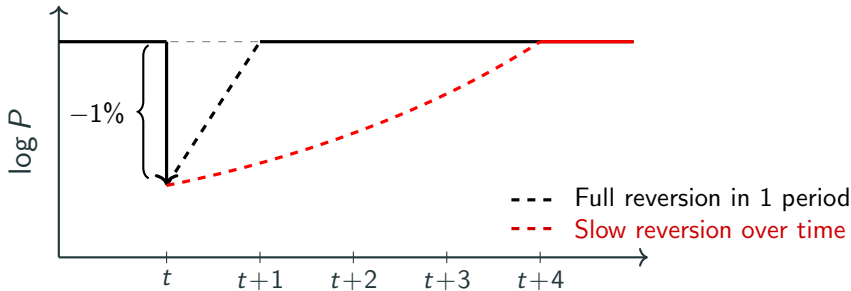

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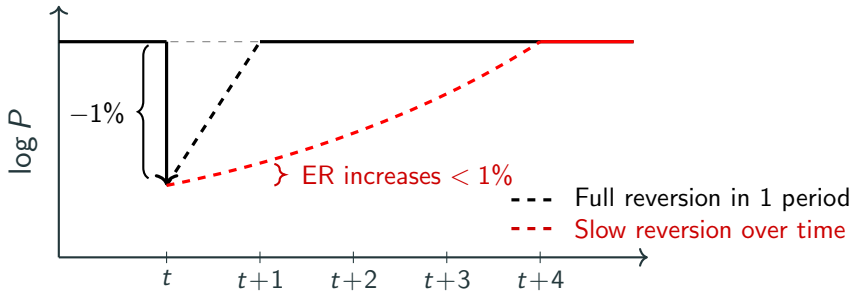

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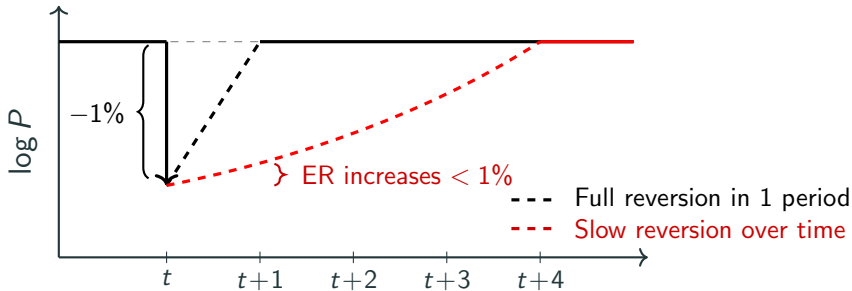

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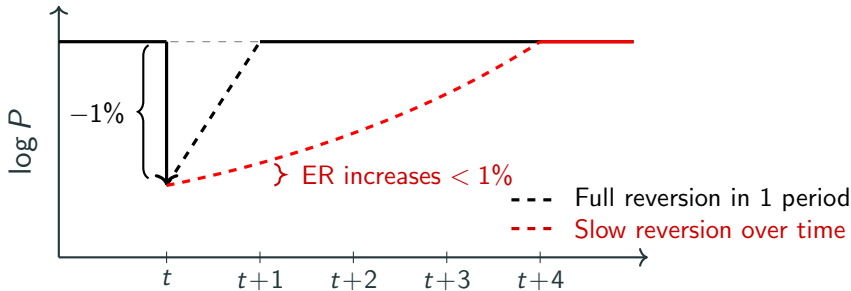

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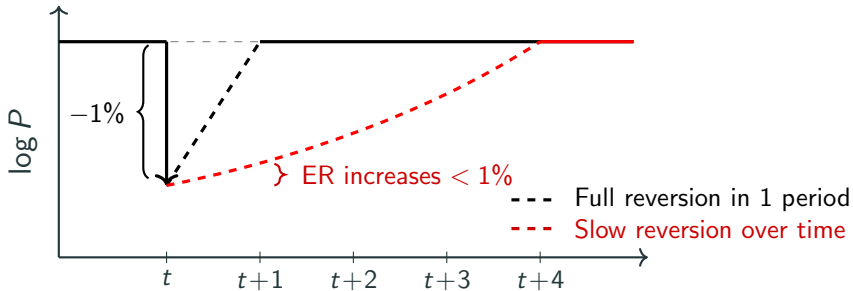
Claim: Existing estimates "off by orders of magnitude"

- Suggests demand shocks have smaller price impact than previously thought



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1. How much must price drop to clear shelves for new inventory? → Transitory elasticity
2. How much can we pass higher input costs to consumers? → Persistent elasticity

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- GK & BDO: Price today can move with just announcement of future demand shock

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Need persistent elasticity ("shifter process elasticity")

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Unfortunately, transitory elasticity is difficult to measure empirically

- BDO is correct: Difficult to identify purely transitory demand shocks

Fortunately, Previous Work Recovers BDO Elasticity from Persistent Elasticity

Gabaix & Koijen (2023):

$$\zeta^{persis} = 1 - \text{portfolio weight} + \kappa \cdot (\text{Average D/P} + \phi)$$

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- Argue demand is far less elastic than in frictionless model with $\kappa = 22$
- Davis, Kargar, Li & Silva (2026) generalize this approach

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Solution: Empirical work should be clear about parameter of interest

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More clarity would be useful → Great that BDO highlight this

- Caution required when applying elasticity estimates to other shocks
- E.g., QE vs. index inclusion

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