

Referee Report on Economics - MS2401

I recommend to **accept after a minor revision**.

1. General Critique

The research Question is very relevant both from a theoretical and from a policy perspective. The applied method/model is properly chosen and set up to analyse the raised question. In this context, I also share the opinion of the author that an agent based-model is the best way to address policy questions like optimal financial regulation.

The paper contains the common sections that belong to a good scientific article: Raising a research question, defining a model, policy analysis and empirics. The results are not only politically relevant but also intuitively understandable and in line with an (older) general principle.

The paper is also decorated with a lot of figures and graphics that make it easier to understand the modeling assumptions and results. I did never have the pleasure to referee an article before that contained such nice and intuitive illustrations. This made it a real pleasure to read the article.

However I also want to mention several major and minor issues that I list in detail below.

3. Major Issues

The major drawback of the manuscript is its length. In total the paper is 56 pages long. In a printed journal this would be unacceptable. If possible the paper should be shortened. Unfortunately I also don't really know what parts to remove. Agent-Based models are often complex and describing them takes a lot of pages. Since the e-journal is an online journal without a page limitation I would leave it to the author if he finds passages to remove.

Because the author has put several parts into the appendix (e.g. empirics) which makes the paper very readable in the current form, I think it would also be acceptable to have a paper of this length. But no further sections should be added during the revision. 46 pages is the maximum a scientific article should have.

An important concept of the manuscript is 'leaning against the wind'. This phrase appears already in the title and the abstract.

Although I have an idea of what this should mean, I think it is good scientific practice to define important concepts clearly. Maybe half of a sentence in the abstract would be enough.

It would also be a good idea to (additional) add a footnote that explains the phrase's origin where it first appears in the main text.

"Leaning against the wind" is also spelled differently throughout the paper. Sometimes in italics, sometimes not. Sometimes in quotation marks and sometimes not.

Another important concept is "endogenous money". The idea of endogenous money is not generally accepted by macroeconomists. The concept should be explained where the word first appears.

Please also explain (shortly) why is this concept used? What would be the difference with a mainstream approach? Are there other published models using this concept (some quotes please)?

4. Minor Issues

Abstract: "... policies make use of"
better "making" oder "that make"

I would remove the last sentence from the abstract. It is partly clear from the context and partly to specific (The Tinbergen principal must be explained. It can not be assumed to be known by the reader).

p. 2: "The focus is on ..."
Shouldn't this be a normative claim like "The focus should be on ..."

p. 2: "the focus more and more turned" better "the focus turned more and more"

p. 2: .. of economic health" It is unclear what economic health means. Please use more precise wording.

p. 3: "overactive" monetary policy
→ overREactive ?!

p. 3: "consult for proper guidance" sounds strange in my ears
maybe better: right instrument to derive scientific guidance for policy makers.

p. 3: "backing the right horse" It is unclear if this is a quote from Haldane & Qvigstad or not.
Because it is not in italics but in quotation marks

p. 4: "Our experiment show" Is there an "s" missing?

p. 4: "Opponents which argue that"
Who argue

p. 4: "Coordination is inevitably"
inevitable

p. 6: "setting a target rate which"
It is unclear what target rate is meant. Interest rate or inflation rate.

p. 9: "which state that this"
who

p. 10: The text and variables in the figure are far too low. They should have approximately the size of the font in the main text.

p. 12: The text and variables in the figure are far too low. They should have approximately the size of the font in the main text.

There seem to be also some vertical lines that are almost not visible in my print. The figures must be better readable.

p. 26: "Deutsche Bundesbank which" maybe this must also be a "who" but I don't know for sure.

p. 27: The deltas on the figures axis are much to large.

p. 28: Fonts on the axis should be larger.

p. 29: The numbers on the axes are not readable any more. Since there are so many small figures on one page. I would recommend to remove the axis numbering entirely and just state in the main text, that the axis are the same as in figure 10.

Obviously, the above applies also to fig 14, 16 and 18.

p. 37: "restricting to the unsustainable" This would mean that only the unsustainable get credit. It should be "restrict from the unsustainable" I guess.

p. 37: "the view of opponent who" It is unclear what opponents are meant in this context. Better leave this word out.

p. 37: inevitably -> inevitable

p. 50: Axis and title of the figures are too small.

p. 51: This holds also for fig 20. The text in figures should be the same size as in the main text. And also for fig 21.

p. 52: Most part of this figure is just blank. Maybe it would be a good idea to plot it in a log-log-scale.

p. 23: "GPD" What is that? Global Police Department of banking regulation?