

Macroeconomic Effects of Monetary Policy Measures

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Federal Reserve Board

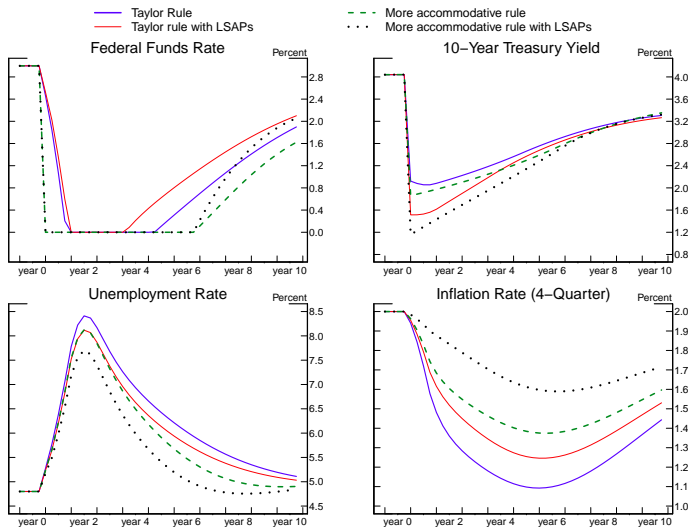
At the Banque de France Conference on
“Monetary Policy and Asset Prices: Lessons from the Crisis”
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¹The views expressed are those of the author and do not necessarily reflect the views of the Federal Reserve Board or the Federal Reserve System.

Effects of policy innovations with multiple tools

- ▶ Evidence from asset price responses during narrow announcement windows suggests policy described by more than one factor
- ▶ Target, path/forward guidance, LSAP
- ▶ Difficulty assigning effects to one tool when it may convey information about another

LSAP effects conditional on alternative interest rate rules

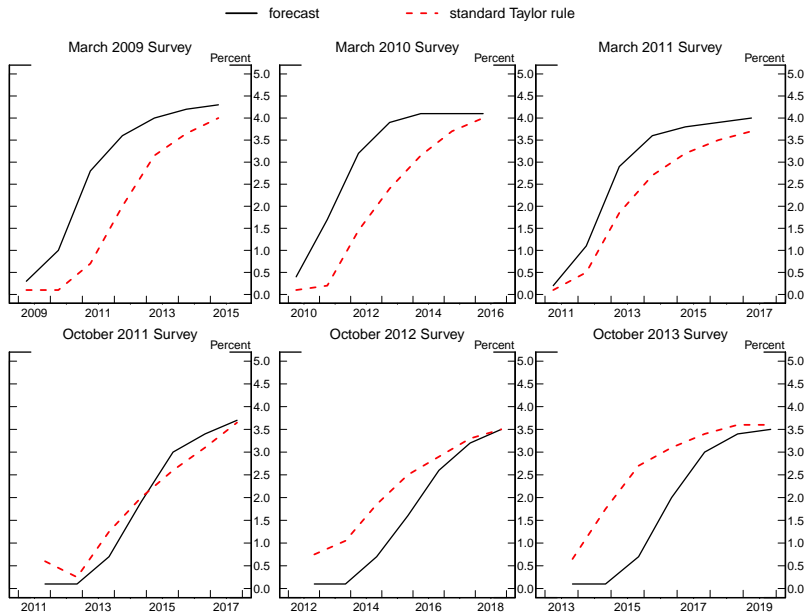


Based on [Reifschneider \(2016\)](#).

Learning about reaction functions

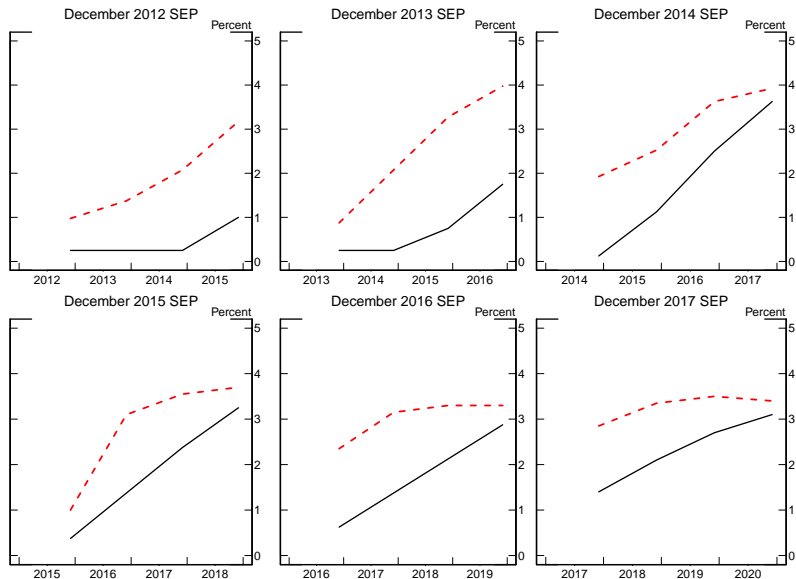
- ▶ Effects of any policy action depends on perception of subsequent endogenous responses, i.e. reaction function.
- ▶ Evidence from Blue Chip survey that these perceptions evolved during post-crisis period.

Blue Chip T-Bill forecasts and Taylor rule prescriptions



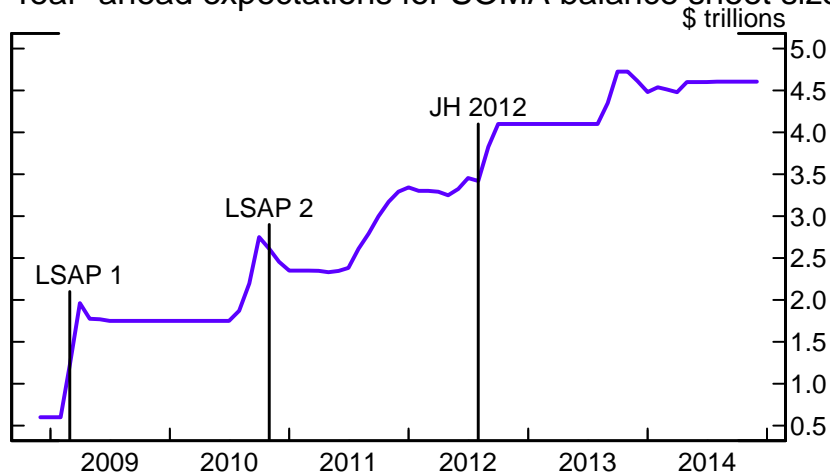
SEP projections and Taylor rule prescriptions

— projections - - - standard Taylor rule



Expectations for balance sheet size

Year-ahead expectations for SOMA balance sheet size

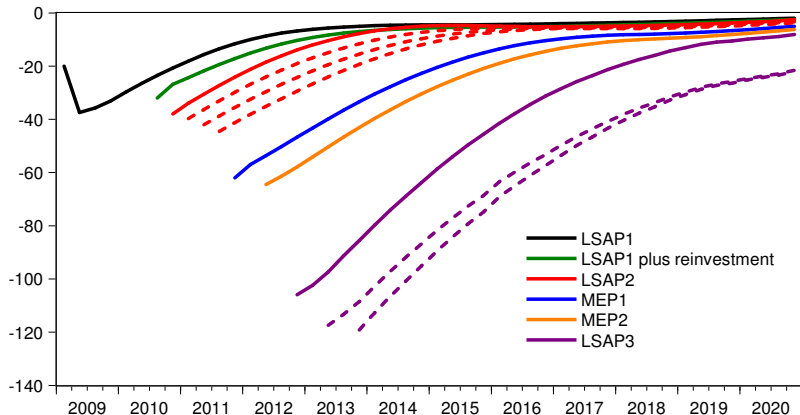


Surveys of Primary Dealers, FRBNY

Estimating the cumulative effects of historical unconventional policies

- ▶ **ELR (2015)** simulate hypothetical scenario 2008-13 without unconventional policy actions:
 - ▶ Control for evolving perceptions of reaction function and length of time at ZLB.
- ▶ For each Blue Chip vintage, create history of (past and future) shocks that matches BC expectations, policy rule and term premium path perceived at that time.
- ▶ Compare to baseline without policy rule changes and without asset purchases.
- ▶ Peak effect of 2008-13 unconventional policies: 1.2 pp on unemployment, 0.5 pp on inflation. Counterfactual in which all actions were fully anticipated by early 2009 nearly doubles their effects.

Cumulative Term Premium Effects of QE Programs



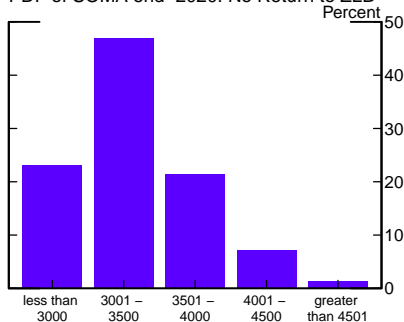
Based on [Ihrig et al. \(2012\)](#), [Li and Wei \(2013\)](#).

Lessons for next time

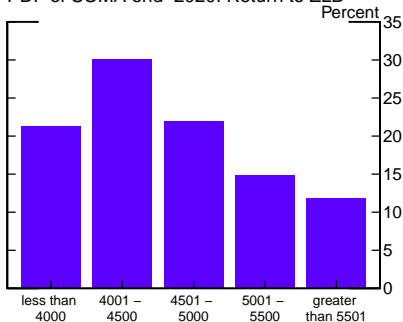
- ▶ With multiple tools, both systematic and surprise components of monetary policy have become multi-dimensional.
- ▶ Effectiveness of unconventional measures increased as perceived reaction function shifted; studies that miss learning are likely to underestimate effectiveness.
- ▶ For future ZLB episodes, precedent is helpful; smaller financial market responses would not signal reduced effectiveness.

Conditional expectations for balance sheet size

PDF of SOMA end-2020: No Return to ZLB



PDF of SOMA end-2020: Return to ZLB



March 2018 Surveys of Primary Dealers and Market Participants, FRBNY.