

Public Affairs 974-1
Monetary and Financial Policy in
the Wake of the Financial Crisis
(9/20/12)

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UW Madison
Fall 2012

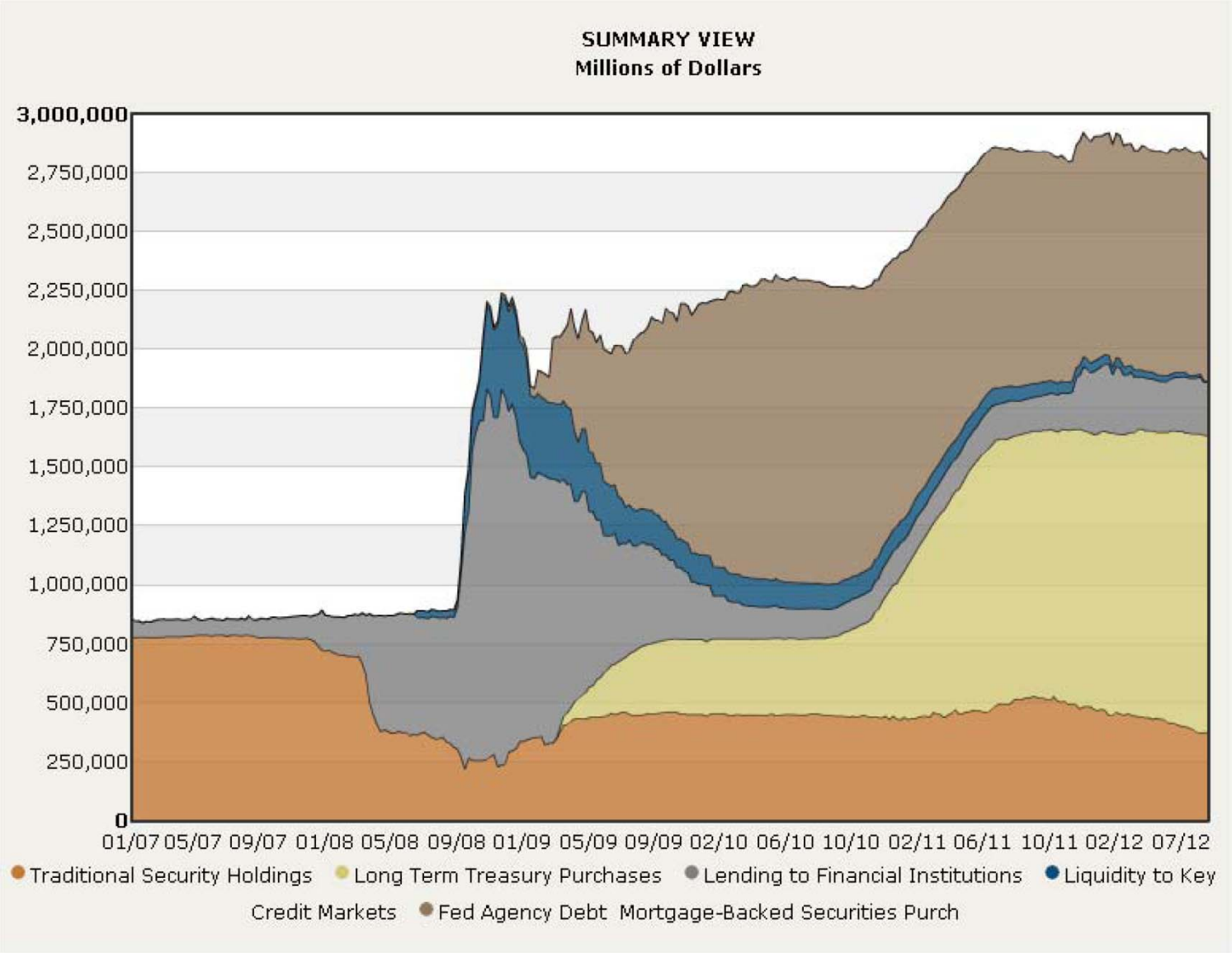
FOMC Decision of 9/13

- Continue Operation Twist through end of the year – replace short term with long term Treasuries (about \$45 bn/mo)
- Purchase \$45 bn/mo MBS
- Keep Fed Funds rate at exceptionally low levels through 2015
- All conditioned (unlike in the past)

A Conditional Policy

If the outlook for the labor market does not improve substantially, the Committee will continue its purchases of agency mortgage-backed securities, undertake additional asset purchases, and employ its other policy tools as appropriate until such improvement is achieved in a context of price stability.

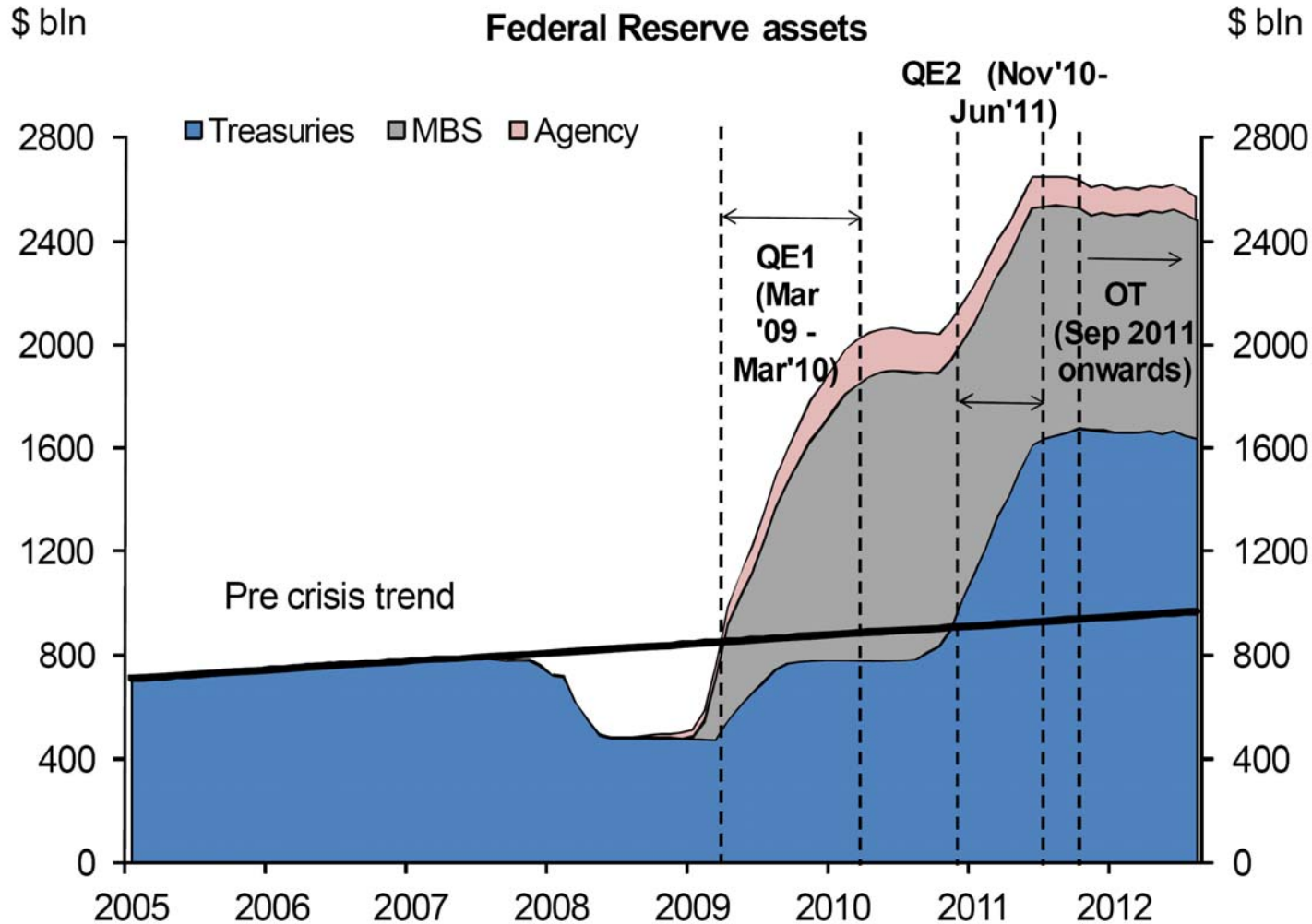
Quantitative Easing, Operation Twist



http://www.clevelandfed.org/research/data/credit_easing/index.cfm

QE, OT, with Dates

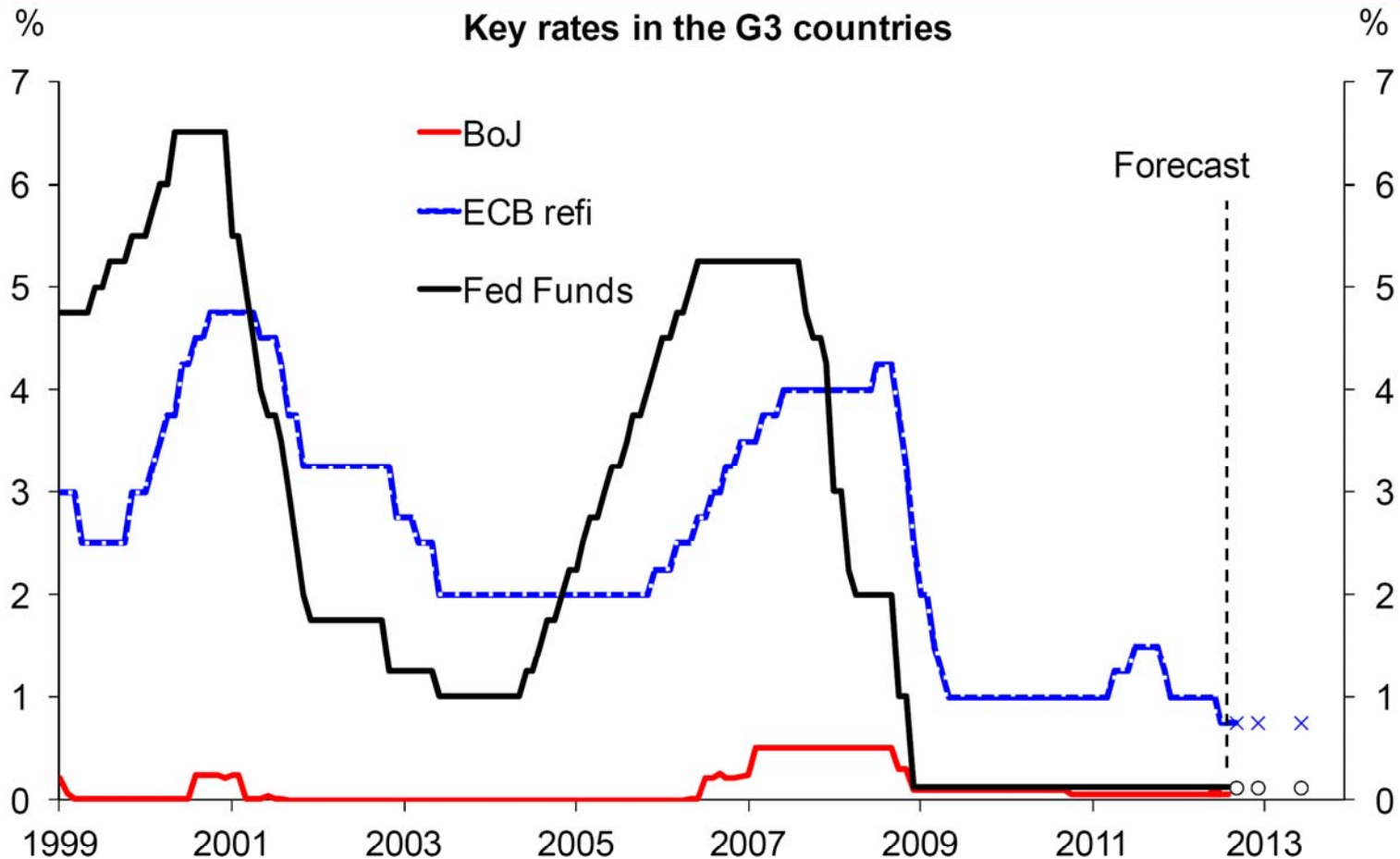
Chart 1: Fed balance sheet expansion



Sources: FRB, Haver Analytics, DB Global Markets Research

Forward Guidance

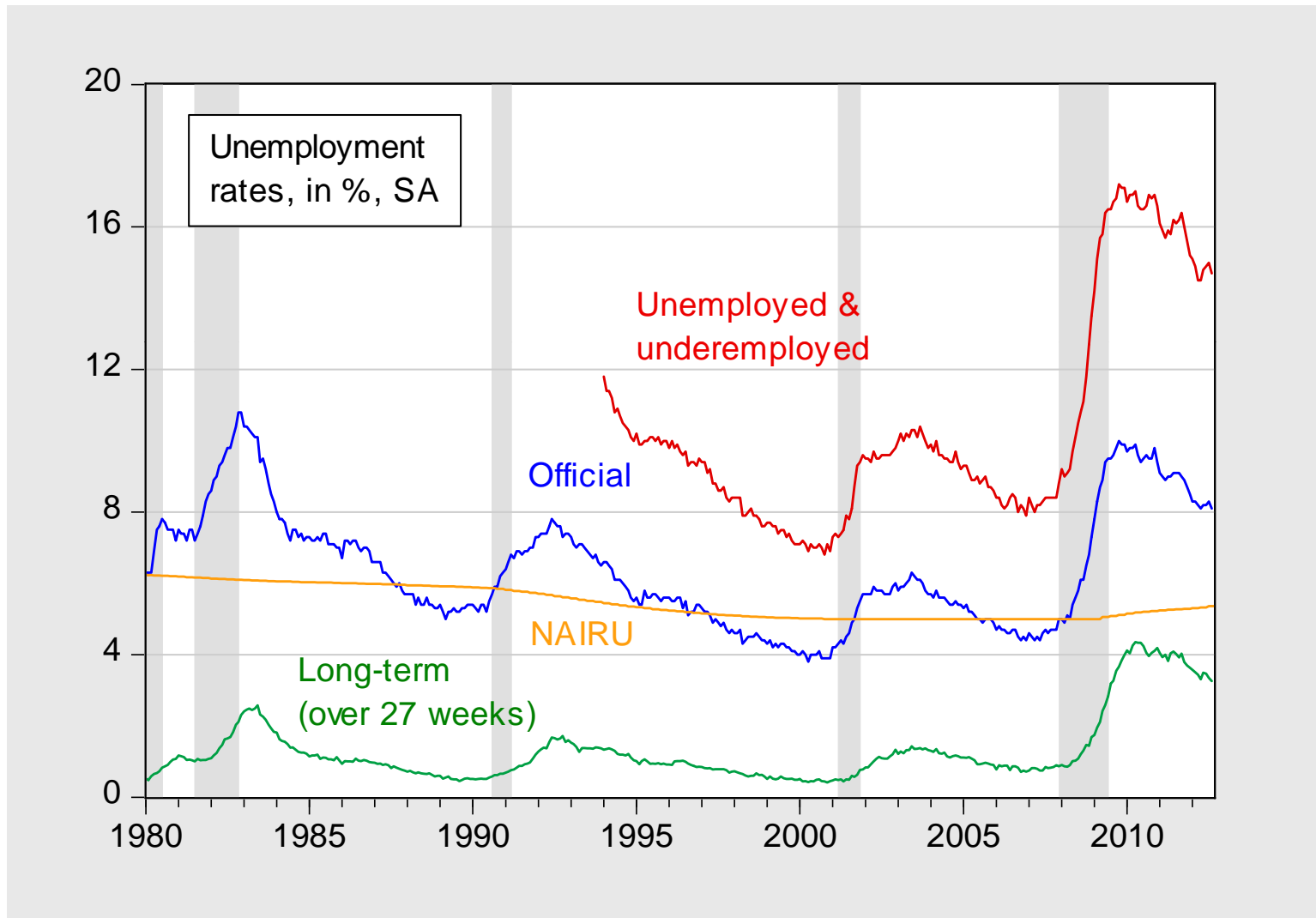
Key rates in the G3 countries



Source: BoJ, ECB, FRB, Haver Analytics, Bloomberg Finance LP, DB Global Markets Research

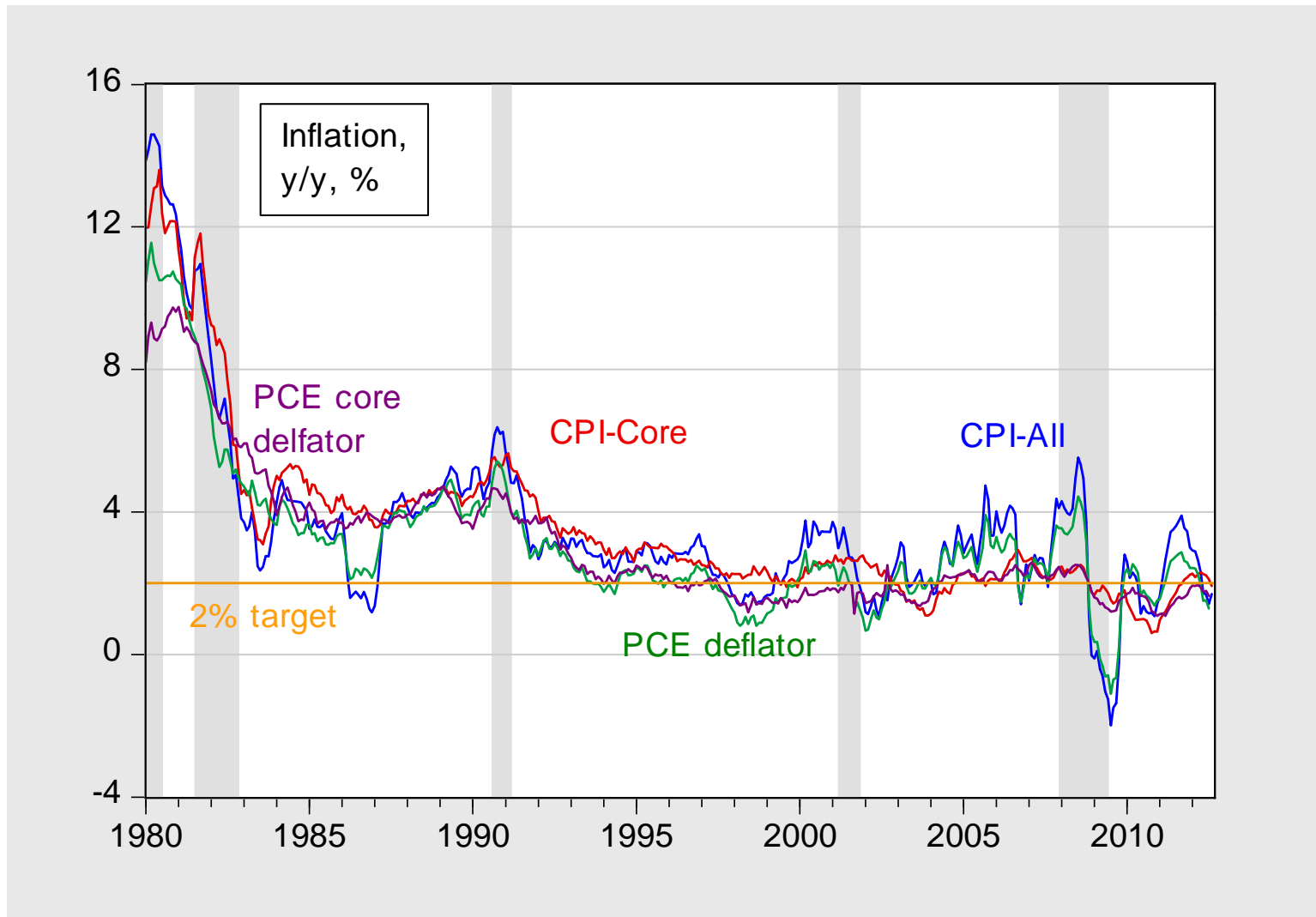
Source: Deutsche Bank, September 12, 2012

The Labor Market



Source: BLS; NAIRU is from CBO; all via FRED

Inflation Measures



Source: BLS for CPI, BEA for PCE; all via FRED

Which Effect Will Be Important

- Portfolio Balance
- Signalling

QE, OT

Table 2: How effective are balance sheet policies? – empirical findings as quoted in Bernanke’s speech in Jackson hole conference

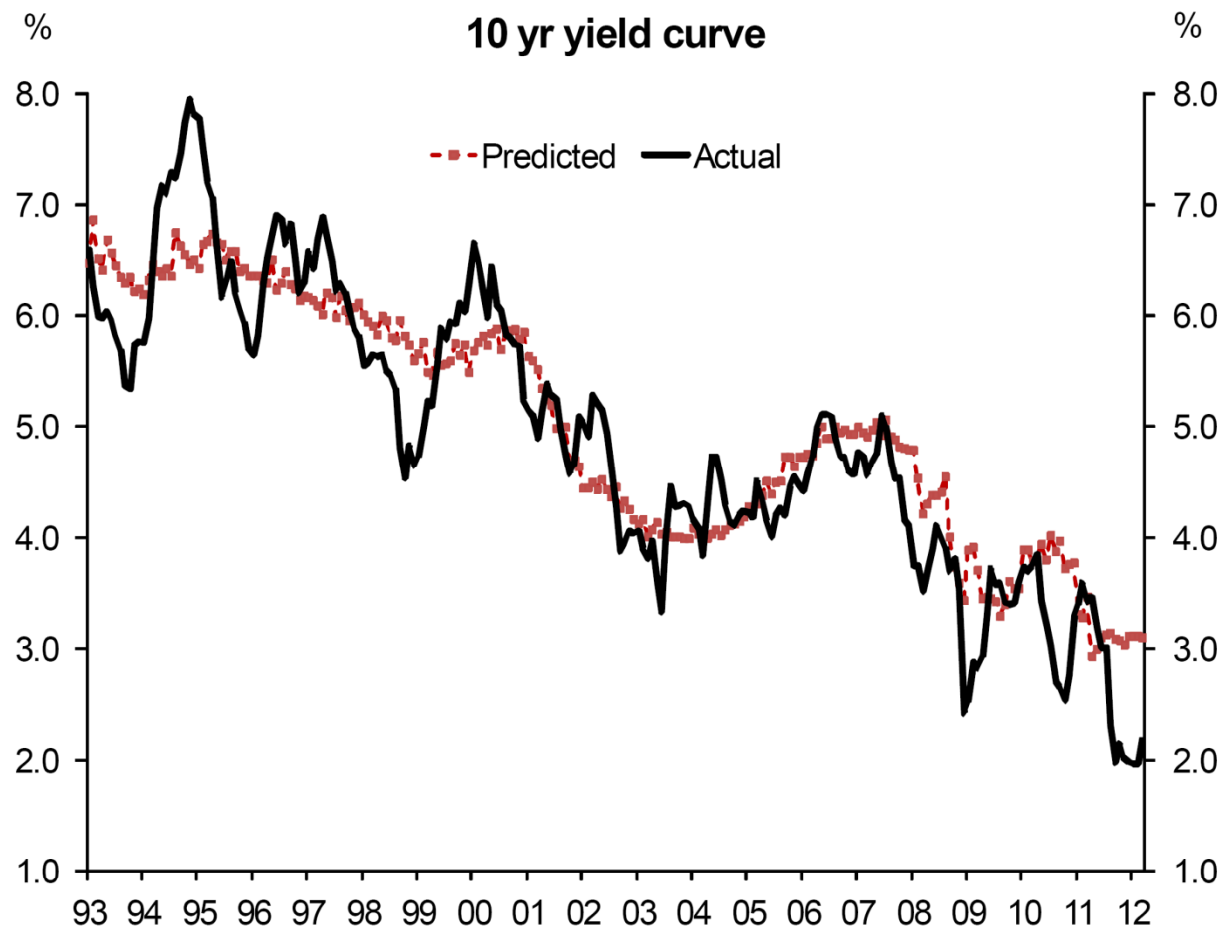
	LSAP1	LSAP2	MEP	Cumulative
Deutsche Bank	98	57	39	194
Range found in previous studies*	40-110	15-45	NA	80-120

**Cumulative range is based on different set of studies that are cited for LSAP1 and LSAP2.*

Sources: Ben Bernanke (2012, Aug), “Monetary policy since the onset of the crisis” Jackson Hole, WY, DB Global Markets Research

Residual Interpreted As Impact

Chart 8: Standard yield curve model (ex QE) unable to track recent drop in yields



**Model run prior to asset purchases by Fed: 1993-2007M06*

Sources: FRB, Haver Analytics, DB Global Markets Research