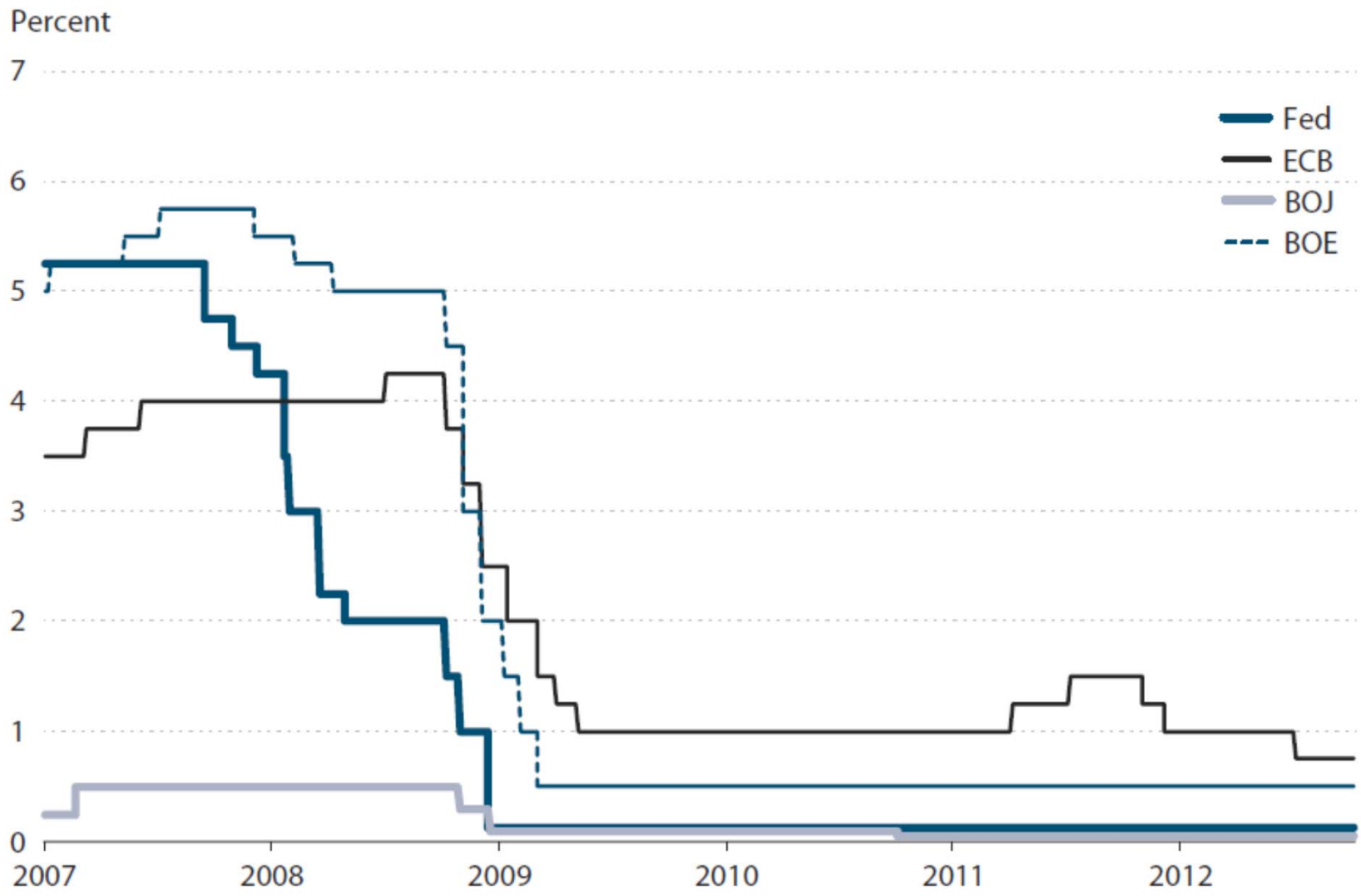
Economics 390
Topics in Macroeconomics
(10/30/2013)

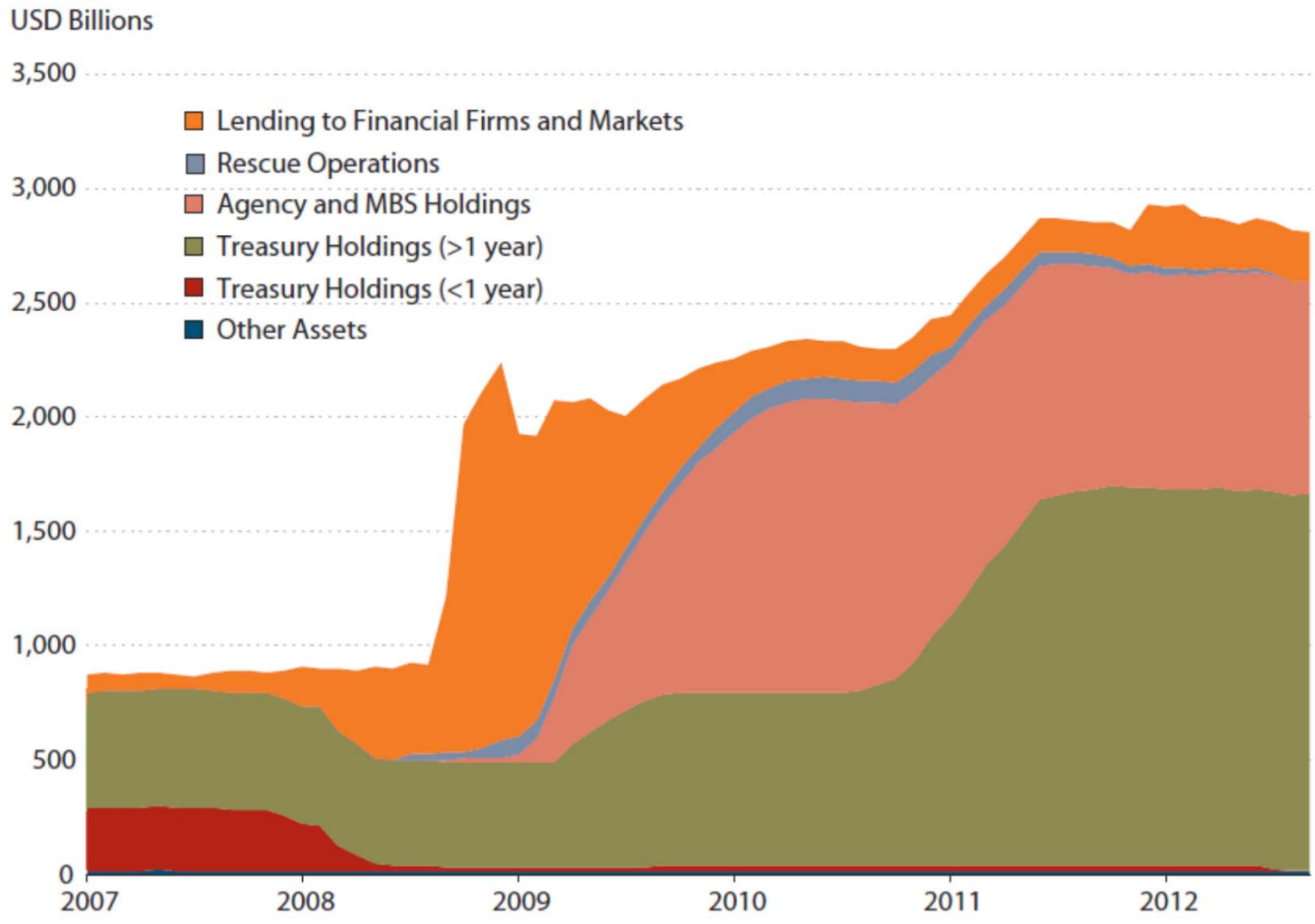
Instructor: Prof. Menzie Chinn
UW Madison
Fall 2013

QE/CE in Other Economies



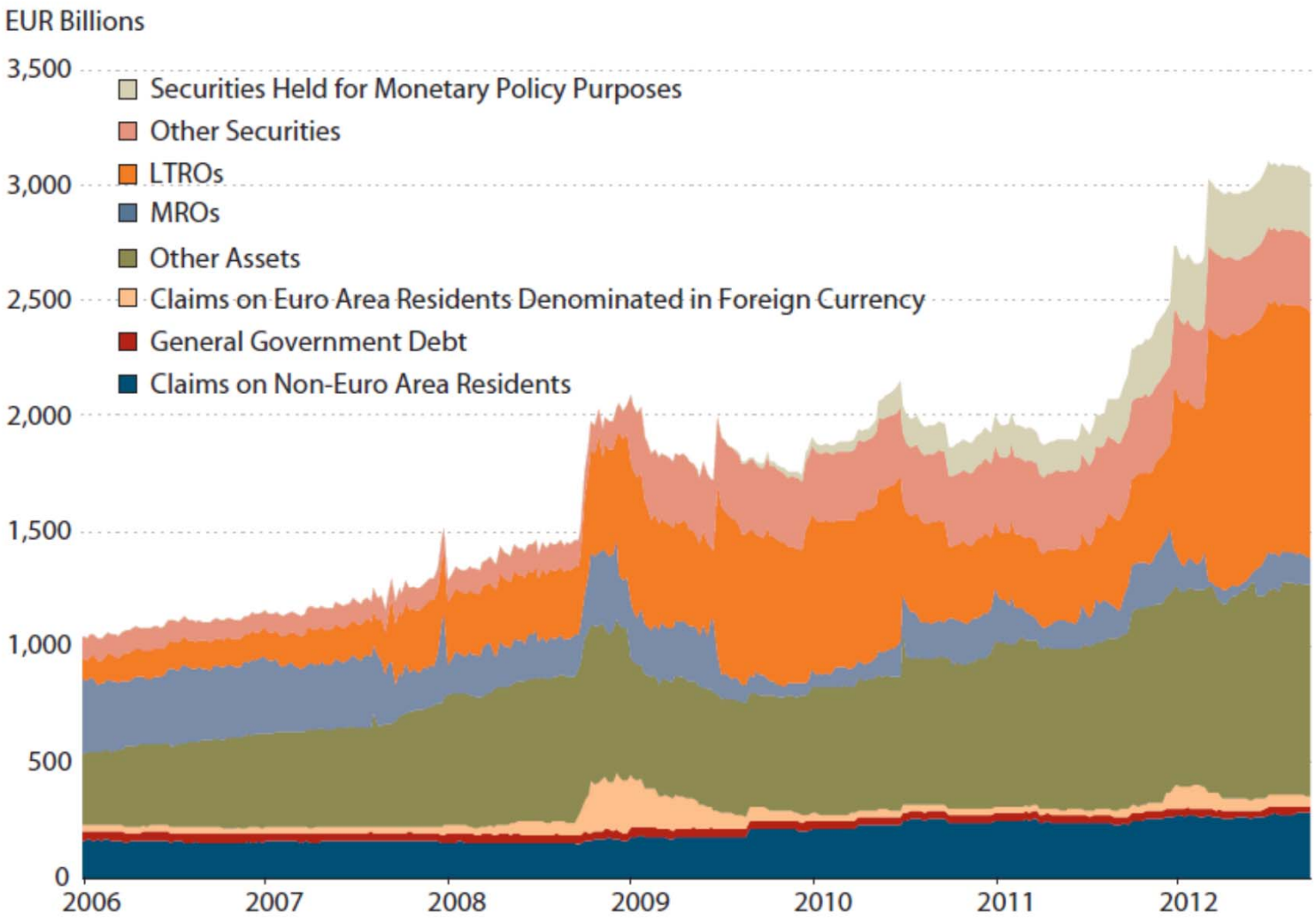
Source: Fawley, Neely

Federal Reserve Bank Assets



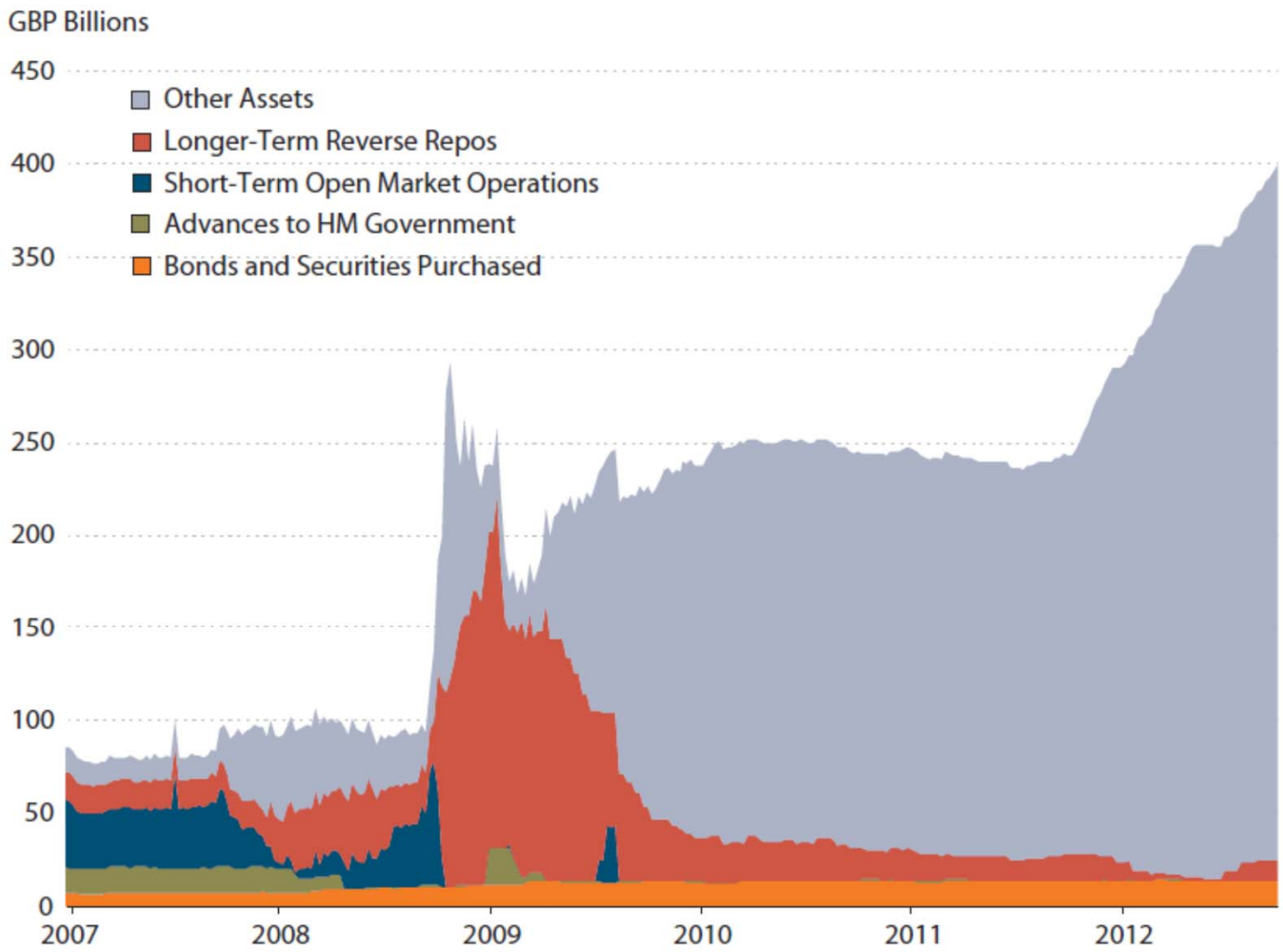
Source: Fawley, Neely

ECB Assets



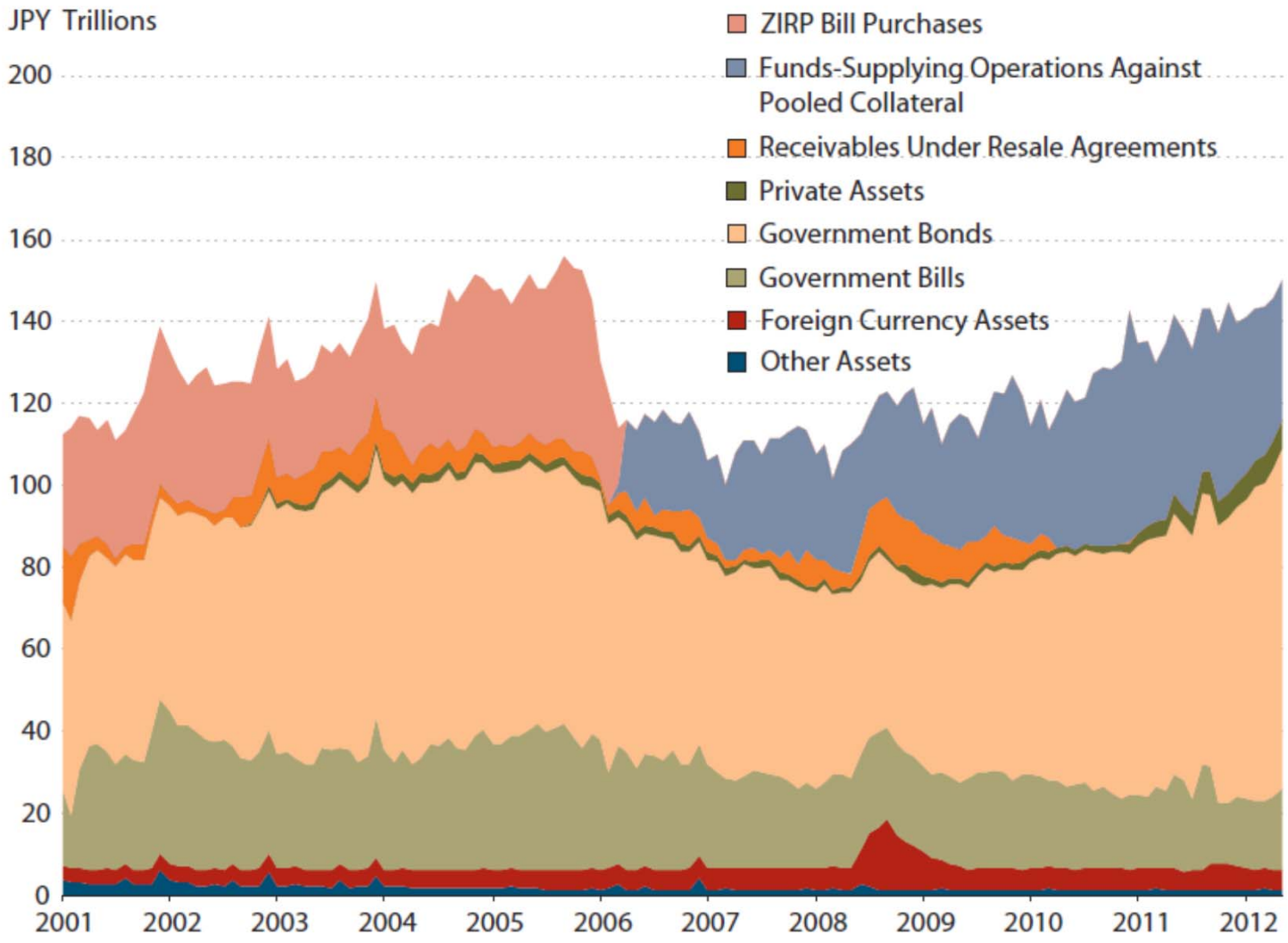
Source: Fawley, Neely

BOE Assets



Source: Fawley, Neely

BOJ Assets

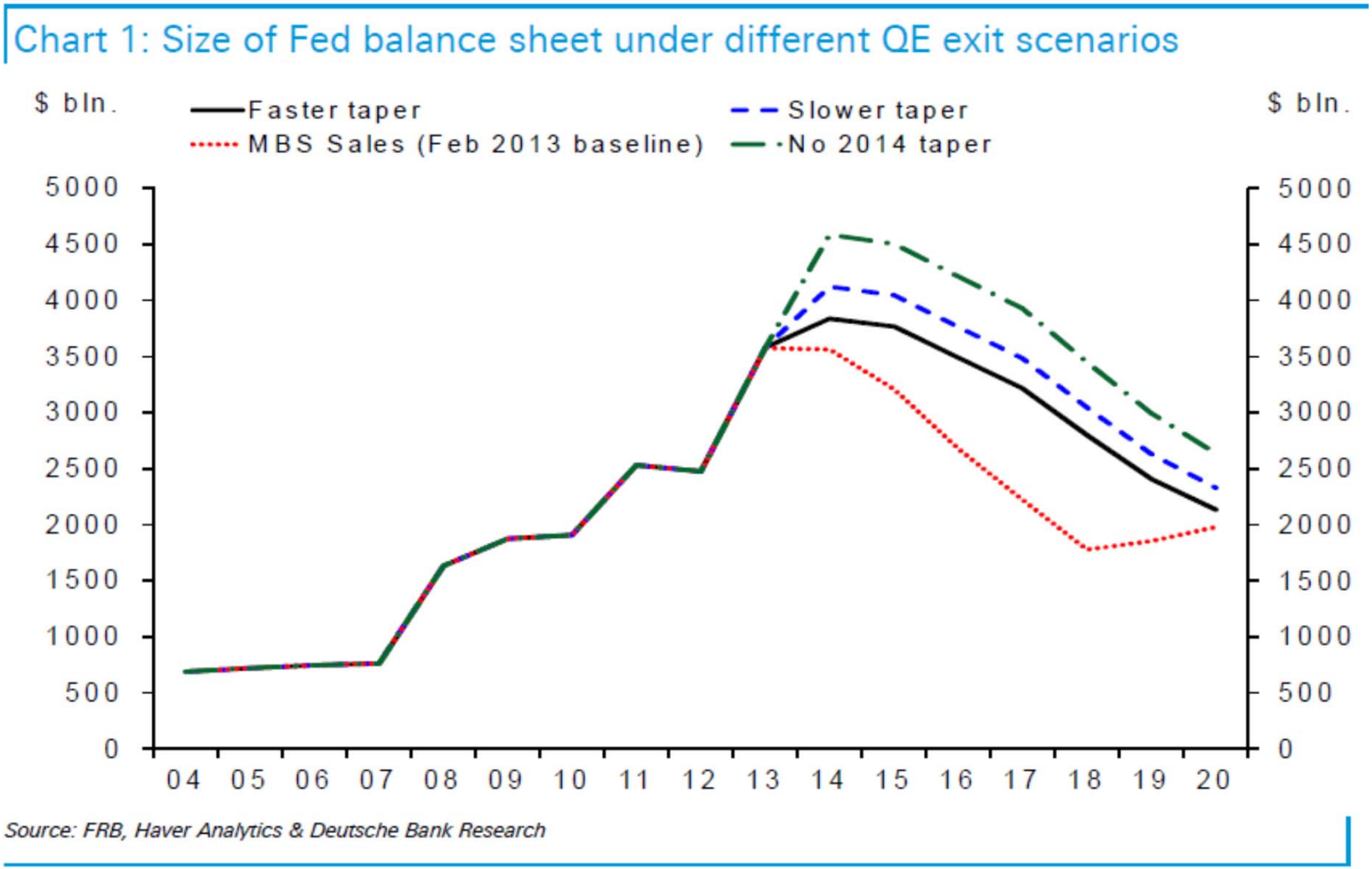


Source: Fawley, Neely

Fawley-Neely Summary

Although all four central banks announced outright asset purchases from the fall of 2008 through the spring of 2009, the Fed and BOE targeted large amounts of assets to purchase, but the ECB and BOJ chose to ease their monetary policy stance primarily by elastically supplying loans. Their outright asset purchases were generally small and targeted specific assets. The ECB's and BOJ's use of bank loans, rather than bond purchases, to expand the monetary base reflects both the desire to specifically support their banking sectors, hit hard by the financial crisis, and the relatively greater importance of banks, as opposed to bond markets, in Europe and Japan.

Exiting QE/CE

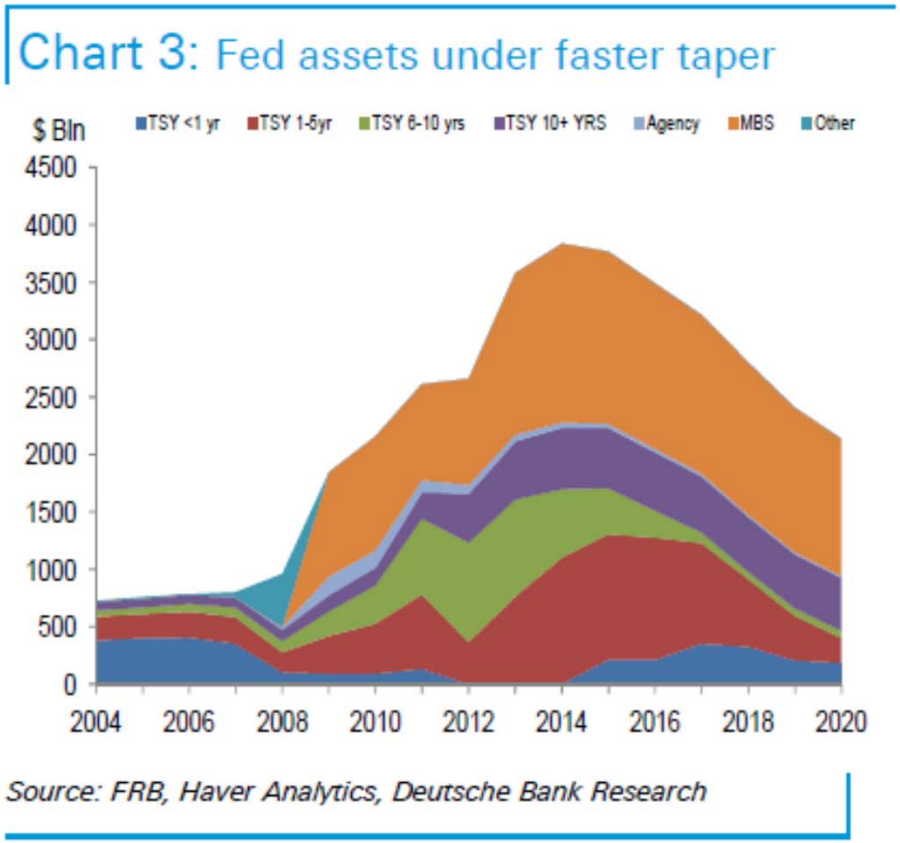


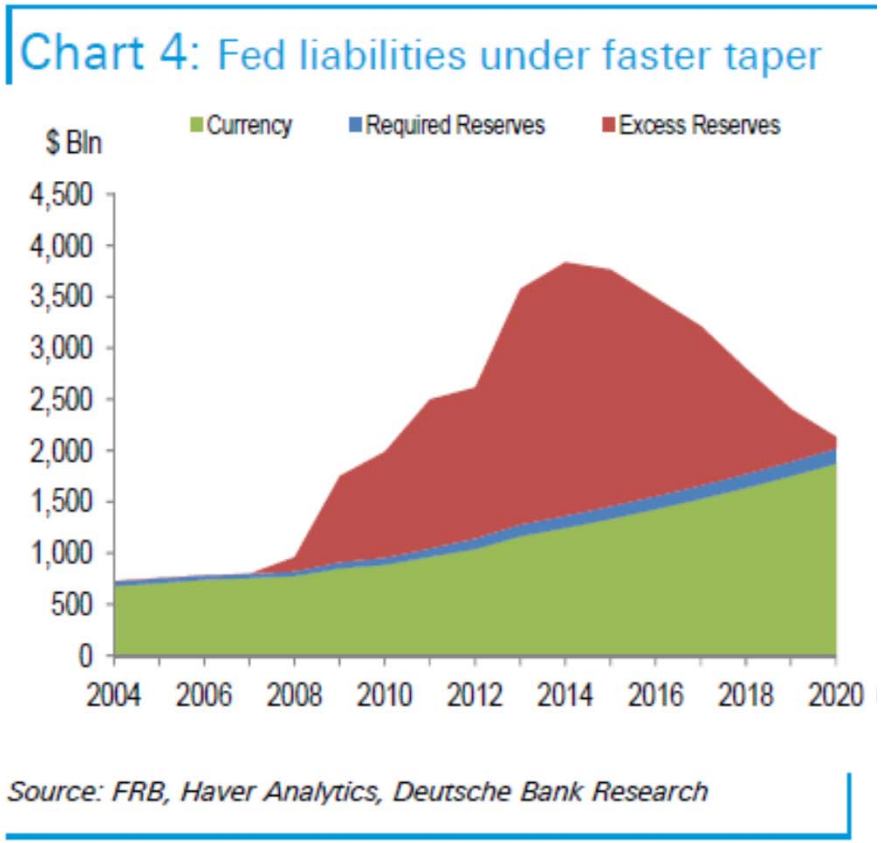
No 2014 taper: Fed continues QE3 at its current pace through year-end 2014 (and then stops all purchases).
Source: Deutsche Bank, *Global Economic Perspectives*, October 25, 2013.

Assumptions

- Under the faster taper, the initial reduction in purchases occurs in December 2013 and new (non replacement) purchases end in mid-2014.
- The second scenario is a slower taper in which the first reduction occurs in March 2014 and new purchases are completed by year-end 2014.
- we assume that the Fed will not actively sell MBS during the exit process.

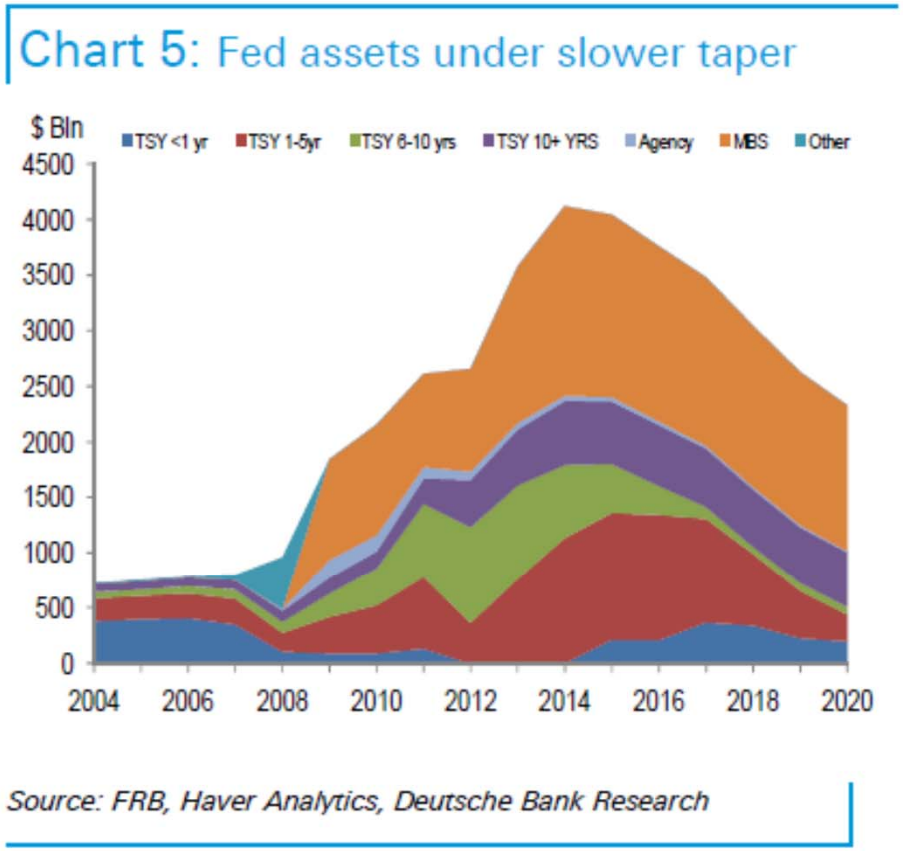
Faster Taper

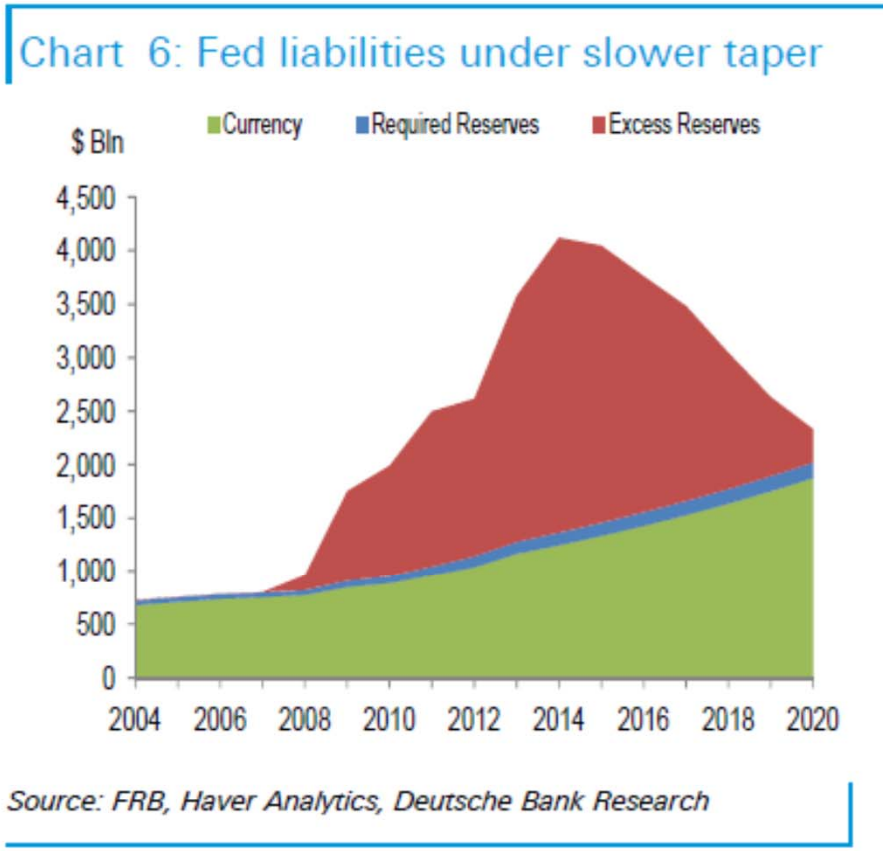




Source: Deutsche Bank, *Global Economic Perspectives*, October 25, 2013.

Slower Taper

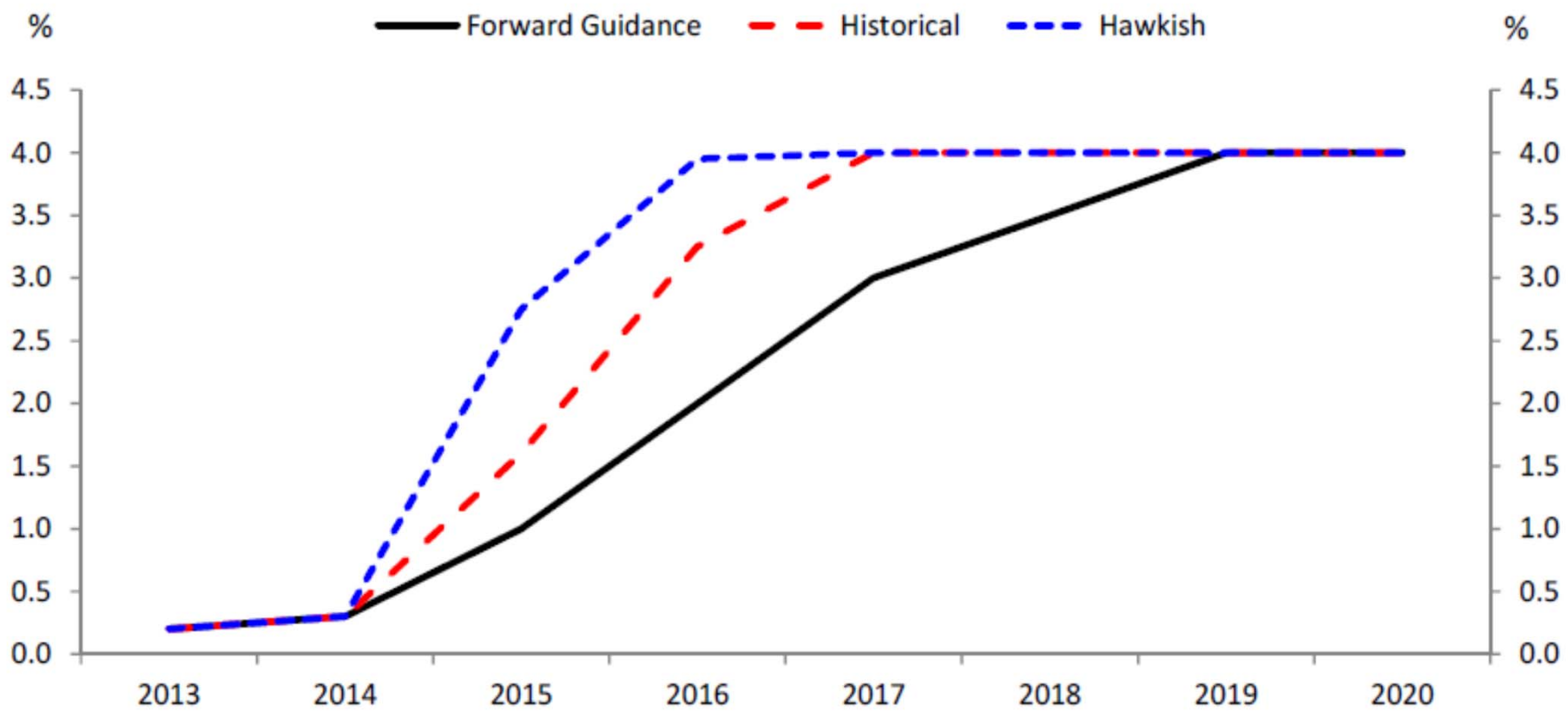




Source: Deutsche Bank, *Global Economic Perspectives*, October 25, 2013.

Duration Commitment

Chart 7: Fed funds rate scenarios



Source: FRB, Haver Analytics & Deutsche Bank Research

Assumptions

- *Forward guidance*: The fed funds rate evolves according to the Fed's forward guidance, which is also broadly consistent with (though most recently somewhat above) market expectations.
- *Historical*: The fed funds rate evolves according to historical Fed rate hike cycles.
- *Hawkish*: The fed funds rate is returned to its long-term neutral rate (4%) when the unemployment rate is equal to NAIRU and core PCE inflation is equal to the Fed's target of 2%.