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Monetary and Financial Policy in the Wake of the Financial Crisis
(9/20/12)

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FOMC Decision of 9/13

• Continue Operation Twist through end of the year – replace short term with long term Treasurys (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
Chart 1: Fed balance sheet expansion

Sources: FRB, Haver Analytics, DB Global Markets Research

Source: Deutsche Bank, Sept 6, 2012
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

Unemployment rates, in %, SA

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

<table>
<thead>
<tr>
<th></th>
<th>LSAP1</th>
<th>LSAP2</th>
<th>MEP</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Deutsche Bank</td>
<td>98</td>
<td>57</td>
<td>39</td>
<td>194</td>
</tr>
<tr>
<td>Range found in previous studies*</td>
<td>40-110</td>
<td>15-45</td>
<td>NA</td>
<td>80-120</td>
</tr>
</tbody>
</table>

*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