Abstract

We pursue a novel empirical strategy to identify monetary news shocks and determine their effects on the US economy during the Greenspan-Bernanke era of Federal Reserve Chairmanship. We first construct a monetary policy residual as the gap between the observed federal funds rate and a policy rule. Using the maximum-forecast error variance (MFEV) approach, we identify a monetary news shock as the linear combination of reduced form innovations orthogonal to current policy residual that maximizes the sum of contributions to policy residual's forecast error variance over a finite horizon. Real GDP declines in a hump-shaped manner after a positive monetary news shock. This contraction in economic activity is accompanied by an immediate fall in inflation and a rapid increase in the nominal interest rate. By contrast, we highlight that in most DSGE models the nominal interest rate falls after a positive monetary news shock. Our findings suggest caution in interpreting the effects of forward guidance on the path of nominal interest rates.

ניתן לקרוא את העבודה בעמוד הבית של הסמינר:
http://portal.idc.ac.il/en/schools/economics/about/Pages/seminars.aspx