Summary of Central bank communication and the yield curve

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1. **What are the research questions?**
    - How does central bank communication affect the yield curve?
2. **Why are the research questions interesting?**
    - The role of central banks in controlling long-term interest rates is an important realistic problem.
    - The significant core-peripheral yield spread on ECB meeting days post-European debt crisis.
        - Emerge during a period when a series of unconventional measures were implemented to reduce it
3. **What is the paper's contribution?**
    - Contribute to literature on effects of monetary policy on the cross-section of assets and market variables
        - Prior studies: long-term real/nominal interest rates, equity returns, volatility, and mortgage issuance
        - Extension: 1) Highlight the role of monetary policy to affect credit risk premia instead of term premia.;2)Study central bank communication separately from policy action.
    - Contributing to literature on ECB’s action during the European debt crisis
        - Prior studies: Unconventional policies of ECB eased financial conditions in peripheral countries.
        - Extension:Focus on different dimensions of central bank communication.
    - Contributing to literature that explores belief driven equilibria around European sovereign debt crisis
        - Provide empirical evidence for a risk premium channel of monetary policy arose in “bad equilibria”
    - Contributing to literature that explores the signaling channel of monetary policy
        - Prior:Policymakers’ actions reveal private knowledge, impacting real economic outcomes
        - Extension:Extract two policy shocks: standard rate changes and news of additional policies
4. **What hypotheses are tested in the paper? list them explicitly**
    - H1: In normal times, IR communication raises all yields; in crises, it boosts core yields but has less or negative impact on peripheral yields.
    - H2: In normal times, U communication shocks barely affect yields; in crises, they reduce all yields, especially peripheral ones.

    (a) **Do these hypotheses follow from and answer the research questions?**
    Yes

    (b) **Do these hypotheses follow from theory or are they otherwise adequately developed? Please explain the logic of the hypotheses (use visualization if possible)**
    - IR affect sovereign yields through both expectation and risk premium channel
        - Expectation channel is identical for all countries
        - Risk premium channel operates in peripheral countries with higher credit risk.
    - IR affect sovereign yields only through risk premium channel
    - Risk premium channel relies on market participants’ sensitivity to monetary policy shocks
        - In normal times, monetary policy communication to have a small effect on credit risk

- In crisis times, perceived credit risk is more sensitive to ECB communication

5. **Sample: comment on the appropriateness of the sample selection procedures**
   - No explanation for why 2001.01.01
6. **Dependent and independent variables: comment on the appropriateness of variable definition and measurement (focus on the key dependent variables and independent variables)**
   - Construct the IR and U appropriately and theoretically
7. **Regression/prediction model specification: comment on the appropriateness of the regression/prediction model specification**
   - The risk premium channel should also impact core countries, such as the risk of breakup of the eurozone
8. **What difficulties arise in drawing inferences from the empirical work**
   - The empirical word is rigorous.
9. **Describe at least one publishable and feasible extension of this research**
   - High-frequency data distinguishes the impact of different events
     - China's macroeconomic data releases and subsequent press conferences.