Summary of Central bank communication and the yield curve

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Journal of Financial Economics

September 24, 2024 Yanrui Zhou

1. **What are the research questions?**
   - Whether monetary policy communication by central banks can impact long-term interest rates via risk premium?
2. **Why are the research questions interesting?**
   - Many papers have studied the role of central banks in controlling long-term interest rates, but few of them focus on the monetary policy communication by central banks, and this paper studied the effect of policy communication on interest rates.
3. **What is the paper's contribution?**
   1. Literature in macro-finance studies the effects of monetary policy(Fama ,2013).
      - **Past studies:** study the effects of monetary policy on assets and market variables.
      - **Expand:** study unconventional monetary policy and channel.
   2. Literature studies the ECB's action during the European debt crisis(Rogers et al., 2014).
      - **Past studies:** find unconventional policies of the ECB eased financial conditions in peripheral countries.
      - **Expand:** study regular monetary policy days, and focus the different dimensions of central bank communication.
   3. Literature explores belief driven equilibria(Corsetti and Dedola,2016).
      - **Past studies:** studies belief driven equilibria around the European debt crisis.
      - **Expand:** complement them by providing empirical evidence for a risk premium channel of monetary policy that arises in the "bad equilibria".
   4. Literature that explores the signaling channel of monetary policy(Romer and Romer, 2000).
      - **Past studies:** policymakers' actions reveal their private knowledge to market participants, which in turn can have real economic effects.
      - **Expand:** extract two distinct policy shocks that differentiate between standard interest rate shocks and news related to additional policies.
4. **What hypotheses are tested in the paper?**
   - H1-a: In normal times, IR (forward guidance) communication shocks have a positive and uniform impact on all sovereign yields.
   - H1-b: In crisis times, they have a positive effect on core yields, and a smaller or even negative impact on peripheral yields.
   - H2-a: In normal times, U (risk premium) communication shocks have a negligible effect on sovereign yields.
   - H2-b: In crisis times, they have a negative impact on all sovereign yields, which is larger in absolute value for peripheral yields.

   a) Do these hypotheses follow from and answer the research questions?
      - Yes, the two hypotheses follow the research question.

   b) Do these hypotheses follow from theory?Explain logic of the hypotheses.

  - Theory: they follow the framework provided by the author.
  - Logic: the hypotheses try to study the effects of two policy communications during crisis and normal times.

5. **Sample: comment on the appropriateness of the sample selection procedures.**
   - This article only focuses on four countries which may cause sample selection bias.
6. **Comment on the appropriateness of variable definition and measurement.**
   - Independent variable: **IR & U** are two kinds of communication shocks in which U is orthogonalized. They are measured properly.
   - Dependent variable: **daily zero-coupon yield & CDS rate changes** are measured properly.
7. **Comment on the appropriateness of the regress/predict model specification.**
   - The main regressing models don't control fixed effects which is not so appropriate.
8. **What difficulties arise in drawing inferences from the empirical work?**
   - This paper only studies four European countries which is limited.
9. **Describe at least one publishable and feasible extension of this research.**
   - This paper could furtherly research why there are difference between c and p countries.