Abstract Final Dissertation

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Title: *"Stock market price shocks and monetary policy within the U.S. economic cycle: an empirical analysis with the VAR model"*

Over the past fifty years, the activities of the Federal Reserve have undergone major changes. The drastic policy actions taken by the FED in late 1970s, early 1980s represent a break with the past, both in the conduct of monetary policy and in the control of inflation: low inflation has emerged, if not as the primary objective of monetary policy, at least at a central focus than it was before the Great Inflation occurred.

The Great Recession, after years of inflation targeting hegemony, has challenged the consensus that central banks should focus on stabilizing inflation ignoring fluctuations in asset prices, and has strengthened the viewpoint that central banks should eventually respond to developments in asset markets.

The purpose of this thesis is to examine, through the estimation of vector autoregression (VAR) models, the effects of stock market price and monetary policy shocks within the US economic cycle.

The variables considered in the analysis are quarterly time series: S&P 500, as a proxy for the financial market; Real GDP per capita, as a proxy for the US output; GDP Price Deflator, as a proxy for inflation; Effective Federal Funds Rate as a proxy for the interest rate.

The reference period goes from the first quarter of 1980 to the fourth quarter of 2019, involving the challenges incurred by the FED to face the Great Inflation and the Great Recession.

What emerges from the analysis is that, from a financial point of view, the results are in line with the macroeconomic tenets: to a positive shock in the financial index follows an expansion in the GDP, resulting on an increase in the monetary amount available in the economy, which leads in an increase in inflation; the FED would then try to contrast the increase in inflation by raising interest rates. While, regarding the responses to monetary policy shocks, I encountered some anomalies, contrary to what economic theory advocates: a positive monetary policy shock is followed by an increase in the inflation rate. Although we may be tempted to associate this behaviour to the *price puzzle* phenomenon (Eichenbaum, 1992),

there is vast literature that witnesses how this anomaly particularly involves the VAR processes (Estrella, 2015)and, moreover, there is not enough evidence in my analysis to prove this phenomenon.