Macro Roundup Article

Headline: Does Monetary Policy Have Long-Run Effects?

Article Link: https://www.frbsf.org/economic-research/publications/economic-letter/2023/september/does-monetary-policy-have-long-run-effects/

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Publication	Federal Reserve Bank of San Francisco
Publication Date	September 06, 2023

Tweet: Researchers at @sffed find that an unexpected 1% rise in short-term interest rates reduces real GDP by 5% after 12 years, but no evidence that loose monetary policy increases potential output. @sanjayrajsingh

Summary: Unexpected changes in monetary policy can slow the pace of economic activity much more persistently than is commonly believed. In response to a 1% increase in interest rates, output would be about 5% lower after 12 years than it would otherwise be. To provide some context for these numbers, consider some data for the United States. In response to a similar 1% increase in interest rates, after 12 years TFP would be about 3% lower and capital would be about 4% lower. When we separate our interest rate experiments into those that resulted in rate hikes versus those that resulted in lower interest rates, we see that there is no free lunch. The blue line shows that lower interest rates have mostly temporary effects that vanish after a few years, as traditional theories predict.

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Primary Topic: Business Cycle

Topics: Academic paper, Business Cycle, Database, GDP, Growth, Monetary Policy, Weekly

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