Macro Roundup Artcile

Headline: Monetary Policy and Innovation

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Tweet: Historically monetary tightening has had an impact on risk capital: 100bps of tightening is associated with a 1-3pp decline in R&D; spending and a 25% decline in VC investment over the following 1-3 year period.

Summary: We normalize the shock to tightening by 100bps. Investment in intellectual property products (IPP) in the national accounts (NIPA) declines by about 1%. The magnitude is comparable to the decline in traditional investment in physical assets. R&D spending in Compustat data for public firms declines by about 3%. VC investment is more volatile, and declines by as much as 25% at a horizon of 1 to 3 years after the monetary policy shock. Patenting in important technologies declines by up to 9% 2 to 4 years after the shock. An aggregate innovation index constructed using estimates of the economic value of patents also declines by up to 9%. Based on estimates of the output and total factor productivity (TFP) sensitivity to the aggregate innovation index, a 9% decline in the index can contribute to 1% lower real output and 0.5% lower TFP 5 years later. Related: Data Update 2 for 2023: A Rocky Year for Equities

Primary Topic: Banking

Topics: Academic paper, Banking, Business Cycle, Database, Financial Markets, GDP, Monetary Policy

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