

# Deconstructing Monetary Policy Surprises The Role of Information Shocks

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# Summary

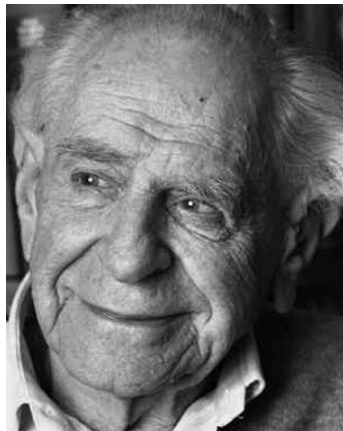
- The paper is about:
  - Disentangling monetary policy from information surprise
  - Studying the effects on real and financial variables
- Methodology:
  - SVAR with new identification scheme
    1. US
    2. EA
  - NK model with financial frictions
- Results:
  - Neglecting information shock can bias responses
  - Information shock is similar to news about demand shock

## What I like about the paper

- Start from a simple stylized-fact:
  - Why asset prices react in the wrong way to MP shock?
- Give a simple and reasonable answer:
  - It is beacuse we are mismeasuring the MP shock!
- Put a lot of effort to address the issue (3 articles in 1)
  - Study is done for both US and EA
  - Create a new, very cool, methodology for VAR identification
  - Offer a structural interpretation through a NK model

**I LOVE THIS PAPER!**

## Sir Karl Popper

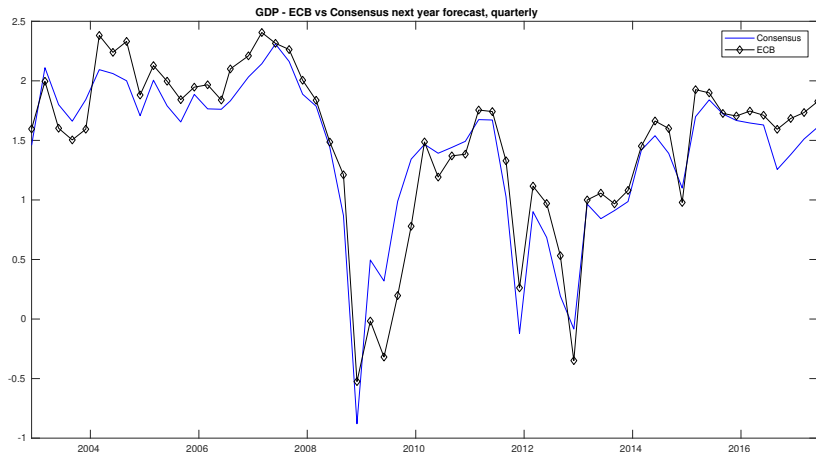


*Whenever a theory appears to you as the only possible one, take this as a sign that you have neither understood the theory nor the problem which it was intended to solve.*

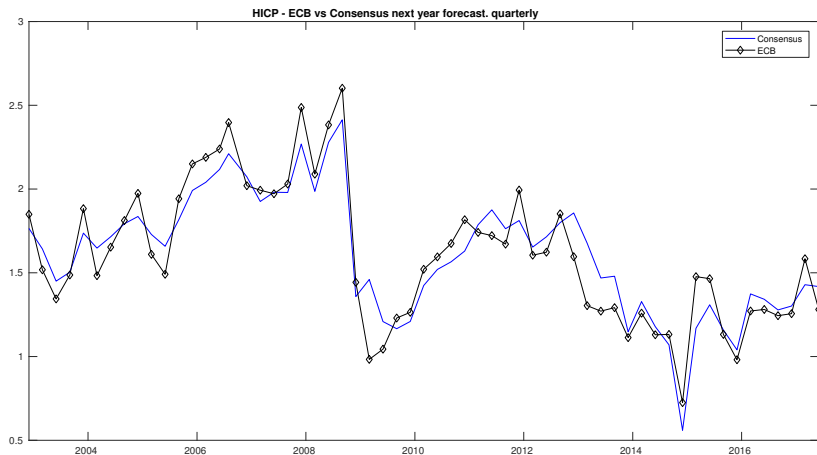
# Main assumption

- Main assumption:
  - "Army of researchers" [Nakamura and Steinsson \(2017\)](#)

# GDP – ECB vs. Consensus forecast



# HICP – ECB vs. Consensus forecast

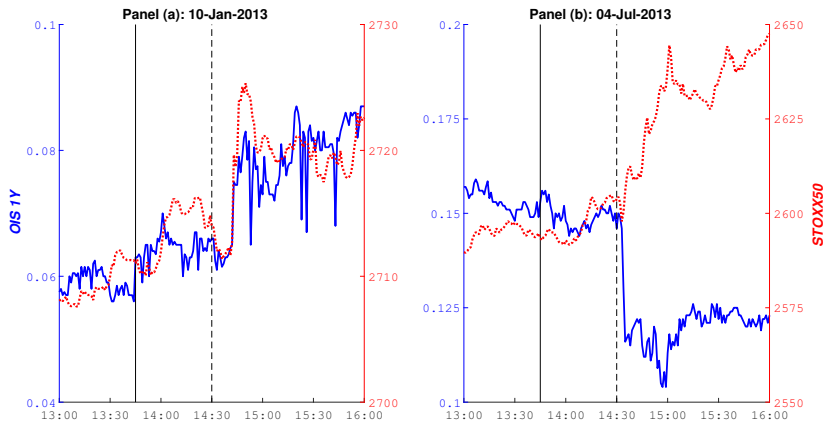




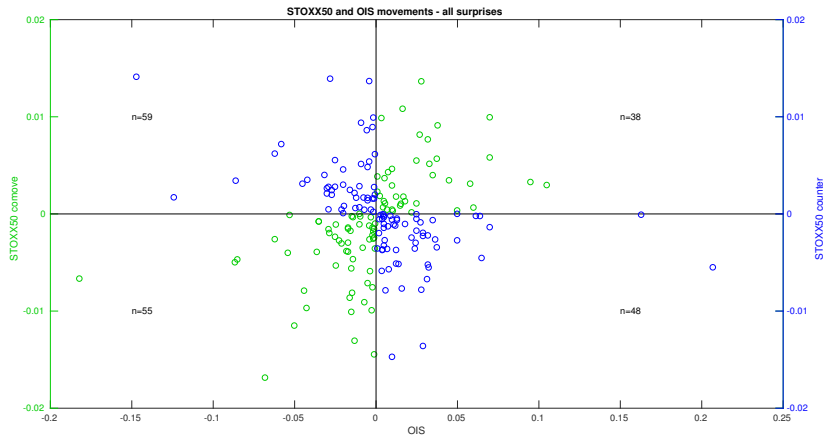
# Main assumption

- Main assumption:
  - "Army of researchers" [Nakamura and Steinsson \(2017\)](#)
- [Andrade and Ferroni \(2016\)](#) did not find empirical evidence supporting this channel
- Similar results [Leombroni et al. \(2017\)](#)

# Stylized fact



# Stylized fact

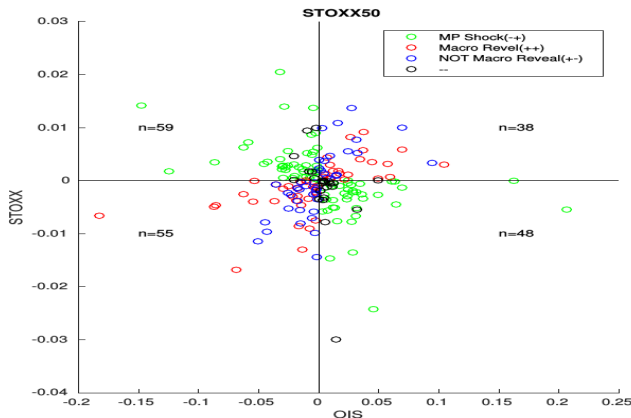


- M.P. shock:  $i_t \uparrow$ ,  $stock_t \downarrow$
- Info shock:  $i_t \uparrow$ ,  $stock_t \uparrow$

## Stylized fact

- Find a third variable, which should go in the same direction in both cases:
  - Exchange rates
- What should I observe now?
  - M.P. shock:  $i_t \uparrow$ ,  $stock_t \downarrow$ ,  $e_t \uparrow$
  - Info shock:  $i_t \uparrow$ ,  $stock_t \uparrow$ ,  $e_t \uparrow$

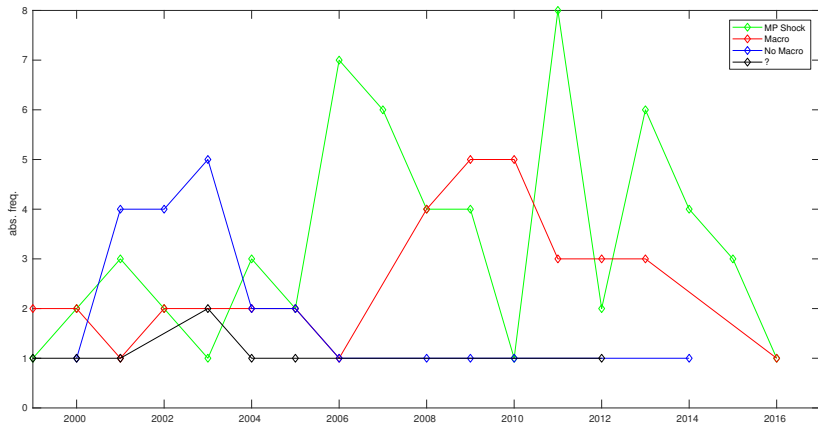
# Stylized fact



- M.P. shock:  $i_t \uparrow$ ,  $stock_t \downarrow$ ,  $e_t \uparrow$
- Info shock:  $i_t \uparrow$ ,  $stock_t \uparrow$ ,  $e_t \uparrow$
- No-info shock:  $i_t \uparrow$ ,  $stock_t \uparrow$ ,  $e_t \downarrow$

# Stylized fact

Absolute yearly frequency of Shocks - Surprise > 1bp



- M.P. shock:  $i_t \uparrow$ ,  $stock_t \downarrow$ ,  $e_t \uparrow$
- Info shock:  $i_t \uparrow$ ,  $stock_t \uparrow$ ,  $e_t \uparrow$
- No-info shock:  $i_t \uparrow$ ,  $stock_t \uparrow$ ,  $e_t \downarrow$

## A Note on the MP shock

- A single-maturity asset change around policy event is not the MP shock
- Monetary policy affects the entire yield curve
- Moreover, it is a multidimensional concept
  - Interest rates
  - Forward guidance
  - QE
- Not taking these points into account might bias results

# Conclusion

- Incredible paper, vibrant and stimulating
  - From an economic
  - But also from a methodological point of view
- Cornerstone of information effect of MP shock
- Lot of food for thought



THANKS TO THE AUTORS  
AND THANKS FOR LISTENING!

# References

- Andrade, P. and Ferroni, F. (2016). Delphic and odyssean monetary policy shocks: Evidence from the euro-area. *Discussion Papers in Economics, University of Surrey*.
- Leombroni, M., Vedolin, A., Venter, G., and Whelan, P. (2017). Central bank communication and the yield curve. Technical report.
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