

Quantitative Easing

Argument 1:

Falling prices (low inflation) contributes to falling wages, deflation is bad because it might cause debt-deflation.

Central-bankers believe, total amount of spending affects the rate of inflation, too much spending causes inflation to rise, as the economy contracts inflation falls,

interest rate -> relative spending -> inflation

inflation targeting -> framework of increasing interest rates when inflation is too high, lowering them when inflation is too low.

Long term assets with newly created bank reserves, QE removes long-term assets out of the economy.

Event study - unexpected announcement of QE. QE has been disappointing and inflation stubbornly below objectives, <https://www.obserwatorfinansowy.pl/in-english/macroeconomics/british-monetary-policy-since-the-financial-crisis/> QE has failed in Japan.

Inflation may have knock-on effects. E.g. the cost of living can further increase inequalities