Discussion: Monetary Policy Uncertainty and Monetary Policy Surprises

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- Causal link? $\uparrow$ uncertainty $\implies$ $\downarrow$ risk-taking

A Structural Interpretation

- Bond markets [Vayanos and Vila (2009, 2019), King (2019)]
  - Mean-variance "arbitrageurs"

$$\max E_t \, \mathrm{d}W_t - \frac{a}{2} Var_t \, \mathrm{d}W_t \quad st: \tag{ARB}$$

$$\mathrm{d}W_t = \left(W_t - \int_0^T X_t^{(\tau)} \, \mathrm{d}\tau \right) r_t \, \mathrm{d}t + \int_0^T X_t^{(\tau)} \frac{\mathrm{d}P_t^{(\tau)}}{P_t^{(\tau)}} \, \mathrm{d}\tau \tag{BC}$$

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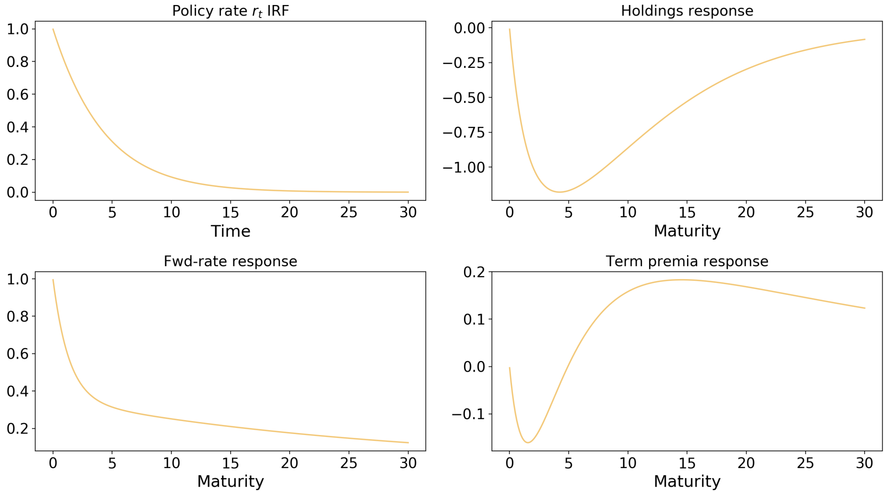
- How do changes in σ_r affect equilibrium outcomes?

Rationalizing the Results...?



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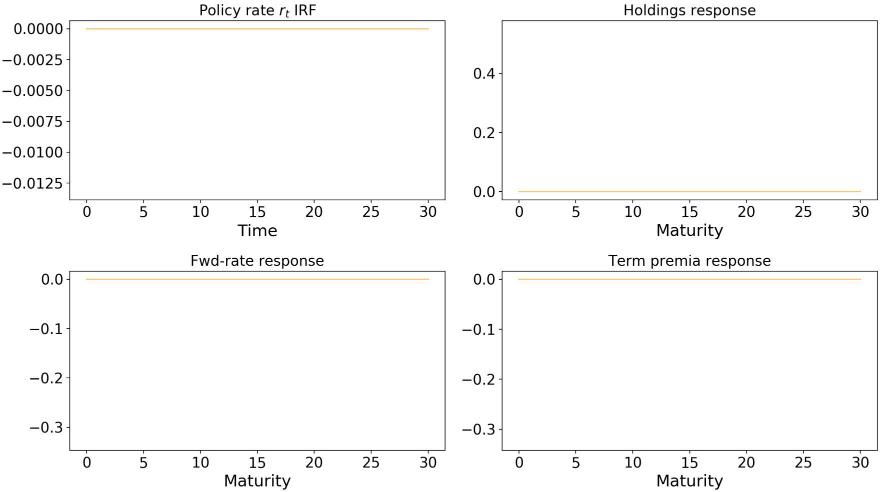

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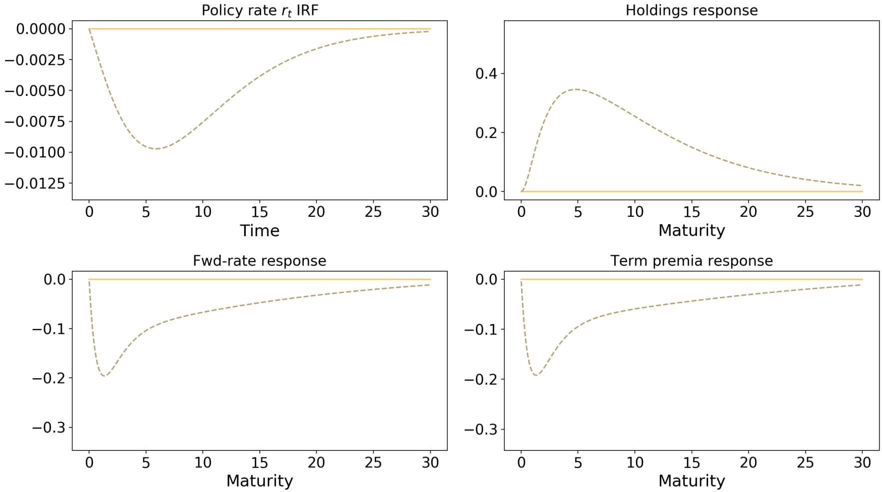

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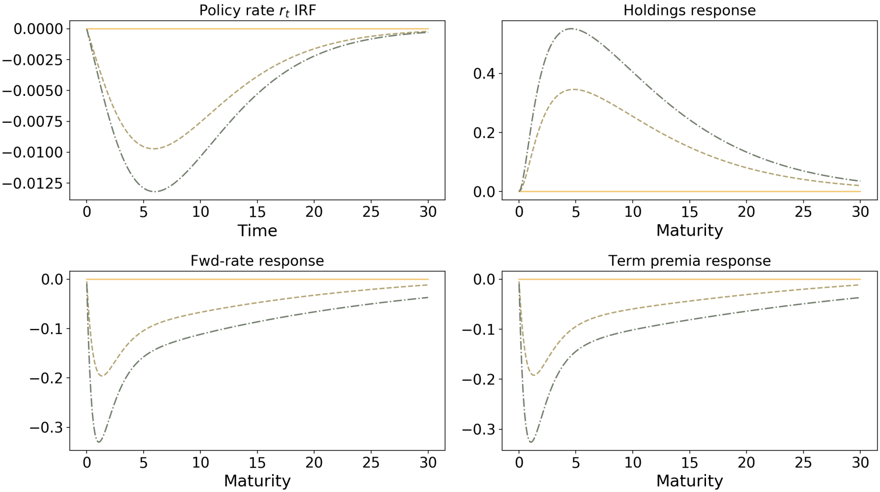

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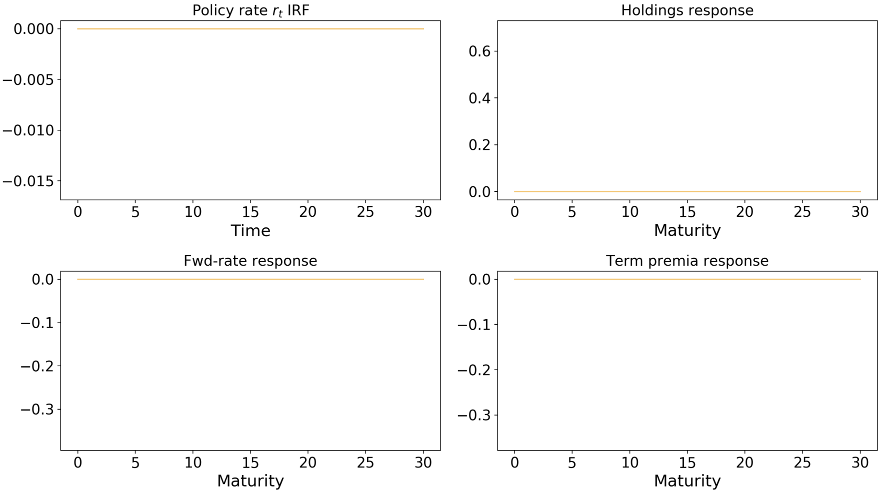

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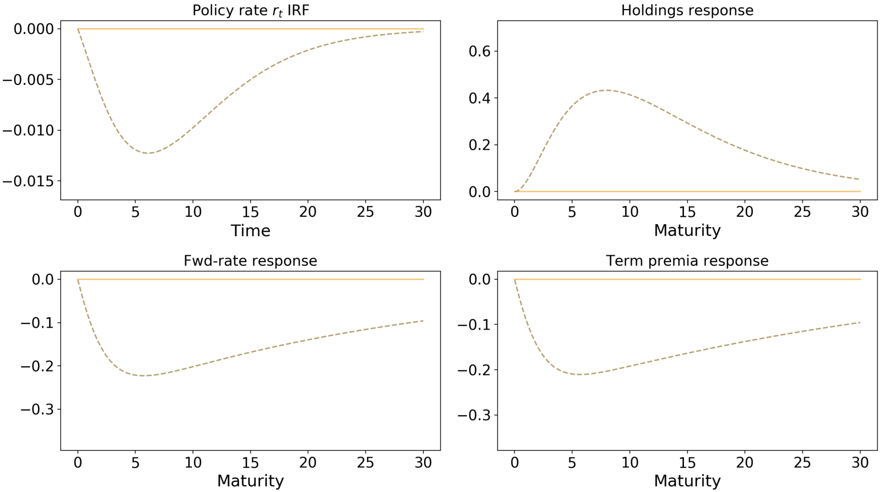

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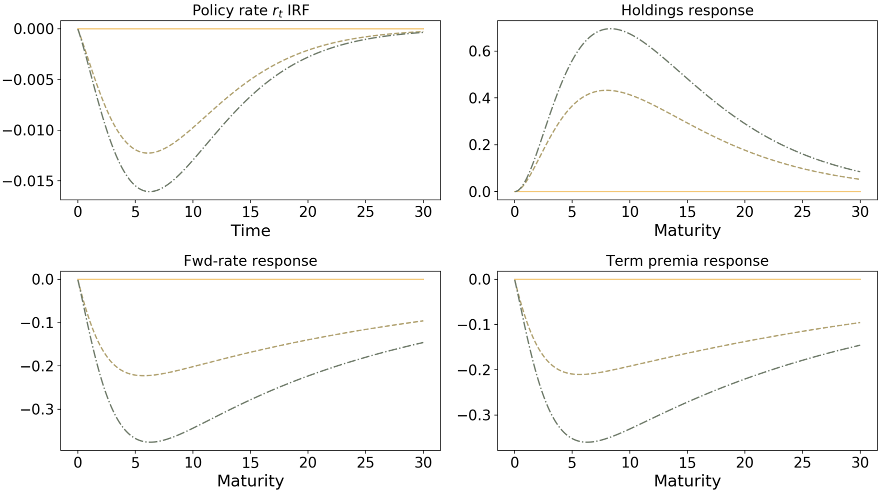

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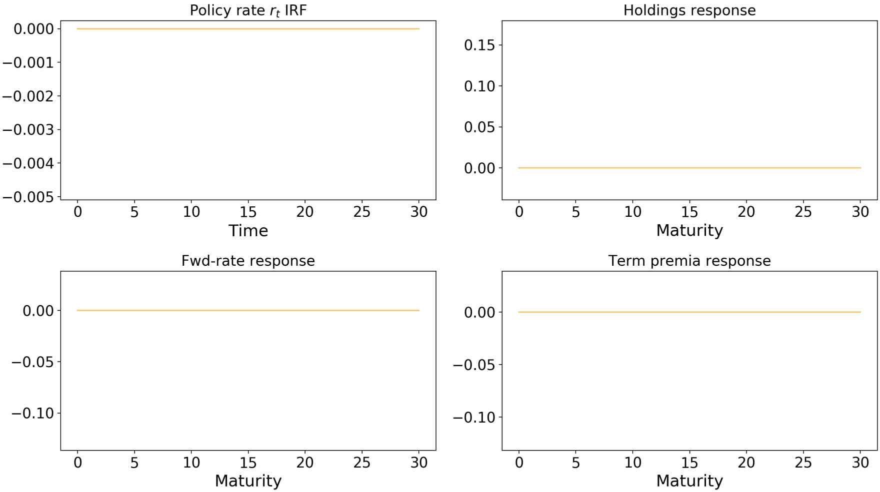

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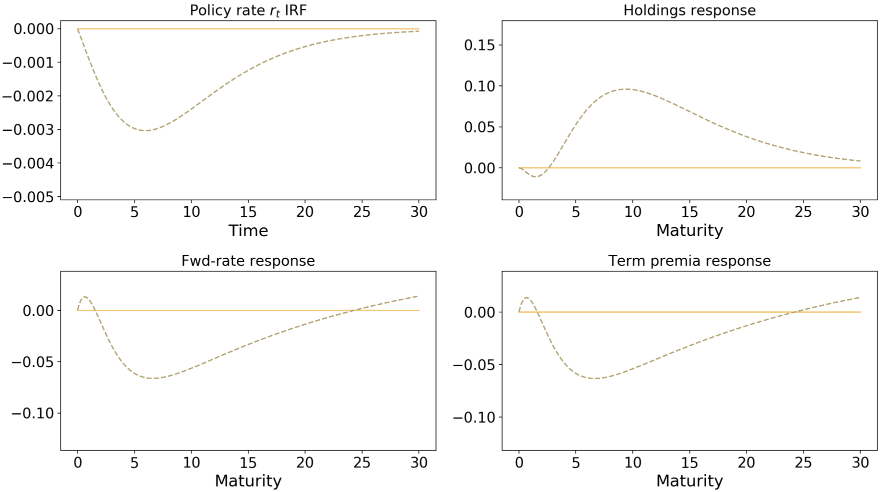

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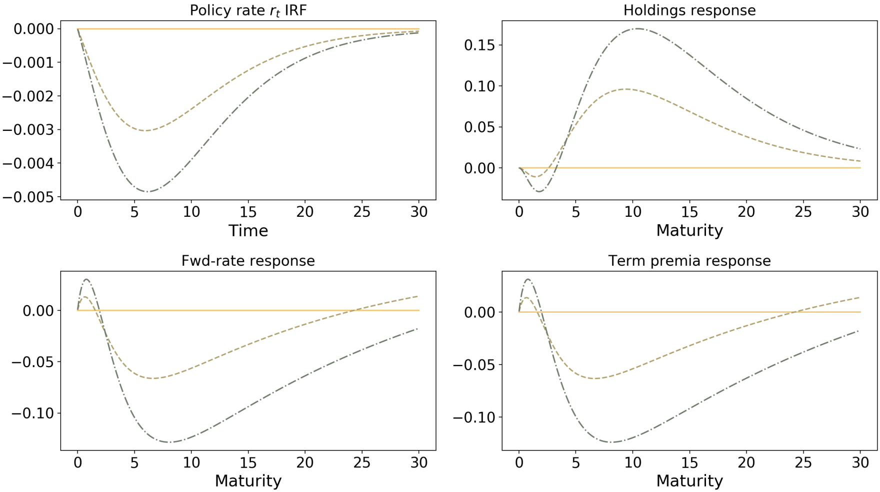

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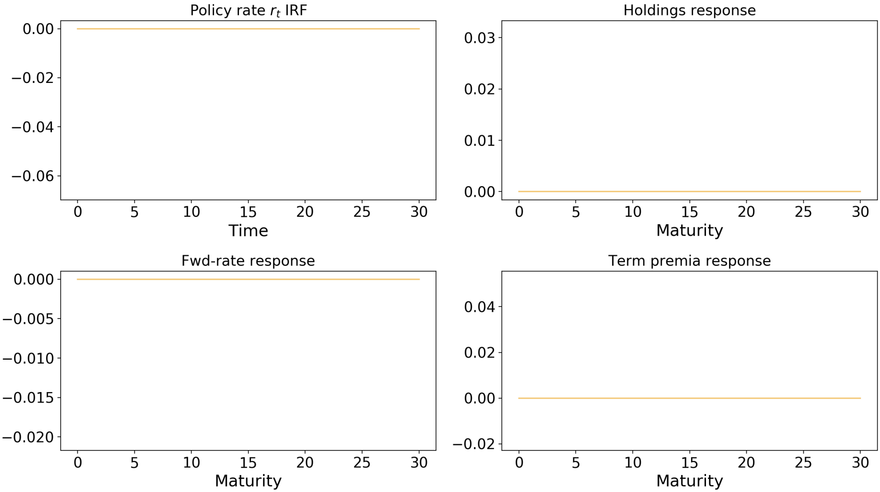

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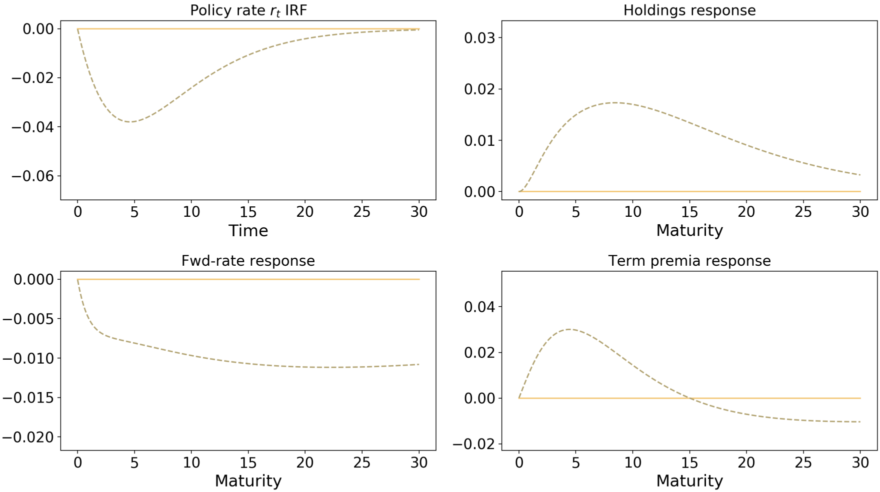

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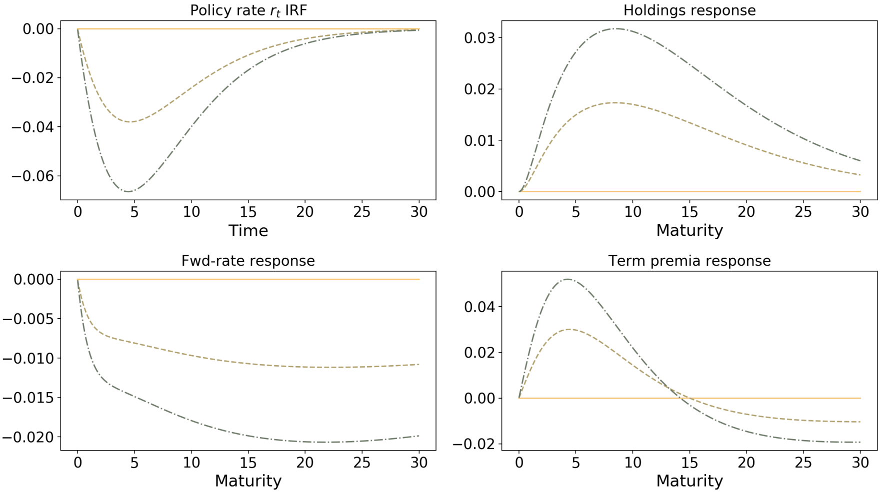

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  - Response of *entire* term structure is informative
  - Corporate debt, equities, foreign bonds, exchange rates... [Greenwood, Hanson, Stein, Sunderam (2019) or Gourinchas, Ray, Vayanos (2019)]
  - Institutional investors [Greenwood, Vissing-Jorgensen (2018)]
  - Response at higher vs. lower frequency [Hanson, Lucca, Wright (2018)]