Discussion of

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The Transmission of Monetary Policy Shocks

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Contributions

- HFI meets the Romers: New instrument for MP shocks
  - High-frequency surprise (Kuttner, 2001; Gertler and Karadi, 2015) purged from the effects of
  - Past surprises
  - Fed staff forecasts (Romer and Romer, 2004)

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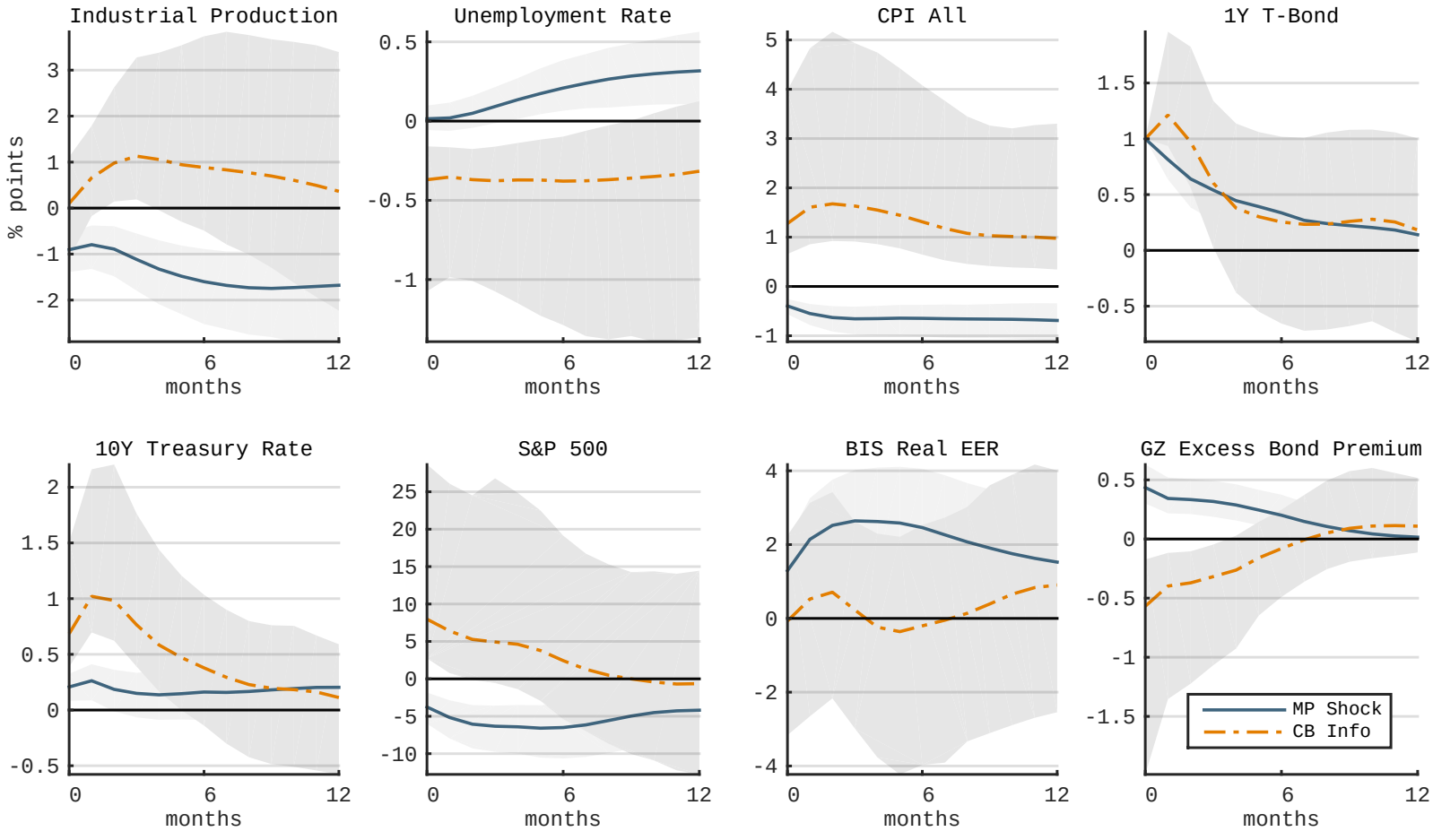
- HFI meets the Romers: New instrument for MP shocks
  - High-frequency surprise (Kuttner, 2001; Gertler and Karadi, 2015) purged from the effects of
  - Past surprises
  - Fed staff forecasts (Romer and Romer, 2004)
- Why? Information frictions
  - Slow information acquisition/processing
  - CB private information about the outlook
  - Policy actions reveal them

Contributions, cont.

- Impact traced out in a SVAR-IV



Contributions, cont.

- New framework: Bayesian Local Projection
  - VAR and LP on population: same normalized impulse responses (up to p) (Plagborg-Moller and Wolf, 2018)
  - In finite samples: unclear, depends on the DGP
  - New proposal: LP with VAR priors and optimized weight

Comments

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  - Information channel biases standard instruments
  - Purging staff forecasts mitigates bias
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- Comments
  - Noisy information in financial markets
  - Transfer of CB private information: action or talk?
  - Do it for (some) other countries (UK?)

Noisy information in financial markets

- HFI surprises not autocorrelated

	$FF4_t$	$FF4_t^{\dagger}$	$FF4_t^{GK}$
instrument$_{t-1}$	0.065	-0.164***	0.380***
	(0.090)	(0.057)	(0.137)
instrument$_{t-2}$	-0.025	-0.048	-0.164**
	(0.119)	(0.066)	(0.073)
instrument$_{t-3}$	0.145	-0.066	0.308**
	(0.130)	(0.073)	(0.150)
instrument$_{t-4}$	0.179*	-0.007	-0.035
	(0.105)	(0.068)	(0.094)
constant	-0.016***	-0.011***	-0.011***
	(0.005)	(0.004)	(0.003)
R^2	0.026	0.001	0.168
F	1.459	2.279	2.965
p	0.217	0.063	0.021
N	167	167	166

Noisy information in financial markets, cont.

- HFI surprises not autocorrelated
  - Including FF4^{GK} is cheap: time-aggregation mechanically creates autocorrelation
  - FF4 is not autocorrelated on the full sample,
  - or weakly (only at 10% level) with a *negative* sign on scheduled days

Transfer of CB private information

- Authors' model: information transfer through action: public filters from interest rate changes (see also Romer and Romer, 2000; Melosi, 2017; Nakamura and Steinsson, 2018)

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- Alternative: through contemporaneous talk: press statements (Jarocinski and Karadi, 2018)

A policy announcement: March 20, 2001, 2:15pm

The Federal Open Market Committee at its meeting today decided to lower its target for the federal funds rate by 50 basis points to 5 percent. [...]

Although current developments do not appear to have materially diminished the prospects for long-term growth in productivity, excess productive capacity has emerged recently. [...] the risks are weighted mainly toward conditions that may generate economic weakness in the foreseeable future.

Market response: both interest rates and stock prices decline (bad news)

Transfer of CB private information, cont.

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Transfer of CB private information, cont.

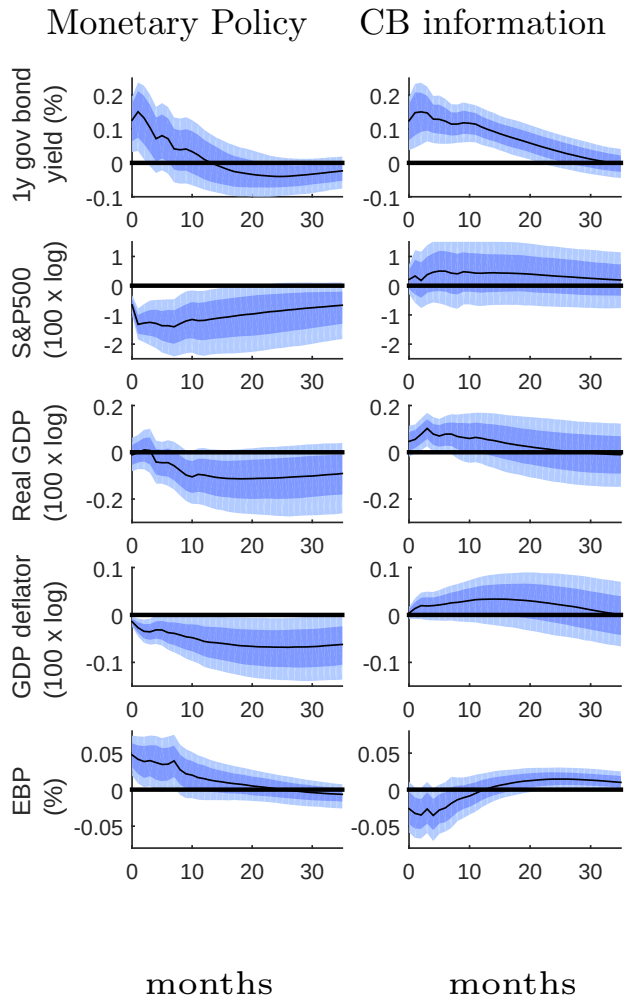
- Authors' identification presupposes: the public learns the CB private information
- Fitted values cause information shocks
- Suggests 'information shocks' independent of monetary policy shocks (comp. information channel).

Transfer of CB private information, cont.

- Alternative route (Jarocinski and Karadi, 2018)
  - Identify shocks from the HF comovement of interest rates and stock prices
  - Identification from what market received (not what info the CB had)

Transfer of CB private information, cont.

- Strikingly similar results



Transfer of CB private information, cont.

- Despite not measuring the same thing

Variables	FF4	MP shock	CB info shock
π_t	0.00203	0.00209	0.000288
	(0.330)	(0.383)	(0.0660)
π_{t+1}	0.00623	0.00163	0.00497
	(0.474)	(0.201)	(0.776)
π_{t+2}	-0.00799	-0.00514	-0.00363
	(-0.835)	(-0.849)	(-0.717)
dy_t	0.0181***	0.0183***	-0.00141
	(2.893)	(3.119)	(-0.388)
dy_{t+1}	0.0140	0.000733	0.0143***
	(1.379)	(0.0886)	(3.078)
dy_{t+2}	-0.00758	-0.00220	-0.00671
	(-0.891)	(-0.341)	(-1.643)
u_t	-0.0279	-0.0256	-0.00629
	(-0.630)	(-0.796)	(-0.296)
Observations	180	180	180
R-squared	0.117	0.116	0.070

Robust t-statistics in parentheses

Transfer of CB private information, cont.

- Future research
  - Identify the channels of information transmission
  - Text analysis (issue: expected text)
  - Combination of text analysis and market responses

Other countries?

- Clear test of the methodology
  - Similar results in other countries?
  - Euro area: private info no predictive power
  - What about UK?

Conclusion

- Great paper
  - Credible identification of monetary policy shocks
  - Clear evidence on the information channel
  - Useful new method: Bayesian Local Projections

Conclusion

- Great paper
  - Credible identification of monetary policy shocks
  - Clear evidence on the information channel
  - Useful new method: Bayesian Local Projections
- Comments
  - No evidence for slow information diffusion at financial markets
  - Information shock, rather than information channel
  - Would be great to repeat it for other countries

References I

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