Essays on Unconventional Monetary Policies  
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In the current low interest rate environment, central banks are conducting unconventional monetary policies, such as forward guidance and large-scale asset purchases, to stimulate their economies. This dissertation contributes to the understanding of the impact of such policies on financial markets and the macroeconomy.

1 How to Model Forward Guidance and Address a Larger Puzzle  
(Job Market Paper)

Forward guidance during the zero lower bound period is typically modeled as news that alters the expected liftoff date of the policy rate, assuming that agents do not expect a policy rate hike in near future. Using U.S. high-frequency data, I empirically reject this assumption and show that forward guidance affects the entire term structure of expected rates. Introducing this estimated forward guidance shock in a standard New Keynesian model substantially magnifies the “forward guidance puzzle”, i.e. the excessive model-implied response to forward guidance. I show that allowing agents to update their macroeconomic expectations in the pessimistic direction following a forward guidance easing explains this larger puzzle per se, unlike the common approach of introducing a discount parameter due to a deviation from a baseline assumption. In addition, I find that the puzzle can also be explained by sticky information general equilibrium models.

2 Unconventional Monetary Policies: Delphic or Odyssean?

Central bank communication could be interpreted in two ways, either as central bank’s commitment to a future action, known as Odyssean guidance, or its forecast of future economic conditions, known as Delphic guidance. The empirical literature has identified the Delphic and Odyssean components of forward guidance policies. I show that another unconventional policy tool, large-scale asset purchases, can also be empirically decomposed into Delphic and Odyssean components, and these two components have opposing impacts on macroeconomic expectations in the US along with other advanced and emerging market economies. Finally, I estimate the asset price responses to Delphic and Odyssean policies.

3 Identification of the Forward Guidance and QE Surprises in the UK

Using intraday data, I separately identify the Bank of England’s forward guidance and QE surprises during the effective lower bound period in the UK. Then, I estimate asset price responses to these unconventional monetary policies. I show that both surprises significantly move gilt yields and term premia on days of monetary policy announcements. However, their impact persists for only a few months. I further document that only forward guidance is effective in moving stock prices and their volatility. While both surprises influence the British pound, the impact of forward guidance persists for at least six months.