

# **Deconstructing Monetary Policy Surprises: The Role of Information Shocks**

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## What does the paper do?

Identifies policy shocks using high-frequency data:  
*change in 3-month fed funds future around FOMC announcement is some policy shock.*

## How does it improve on the literature?

Splits this shock into a **(pure) monetary policy** and a **central bank (CB) information** shock.

# The Two Policy Shocks

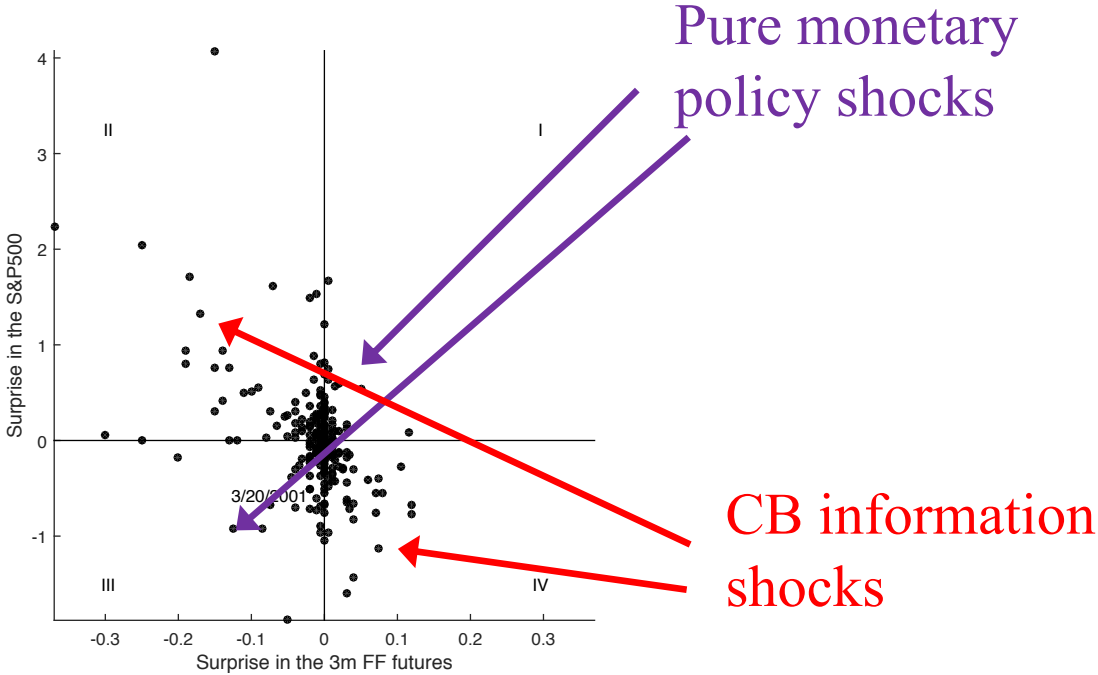
## **(Pure) monetary policy shock (tightening)**

- $\Delta r^{ue} > 0$  and  $\Delta SP_{500}^{ue} < 0$
- Negative comovement

## **CB information shock (tightening)**

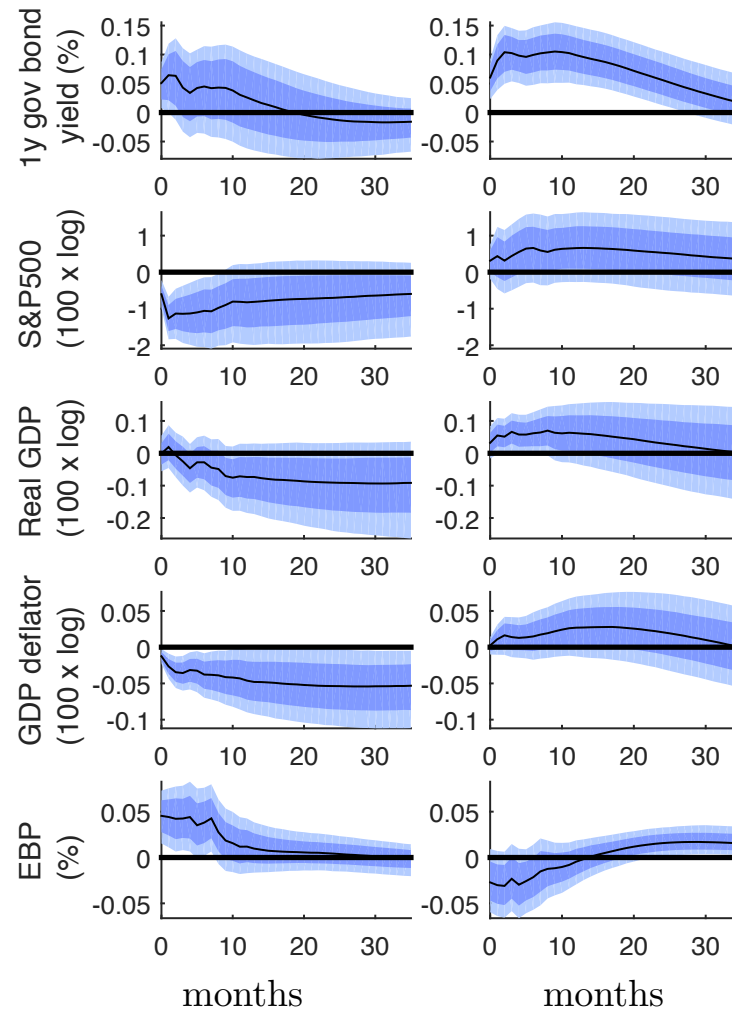
- $\Delta r^{ue} > 0$  and  $\Delta SP_{500}^{ue} > 0$
- Positive comovement

# The two policy shocks



## IRFs

Pure shock    Info shock

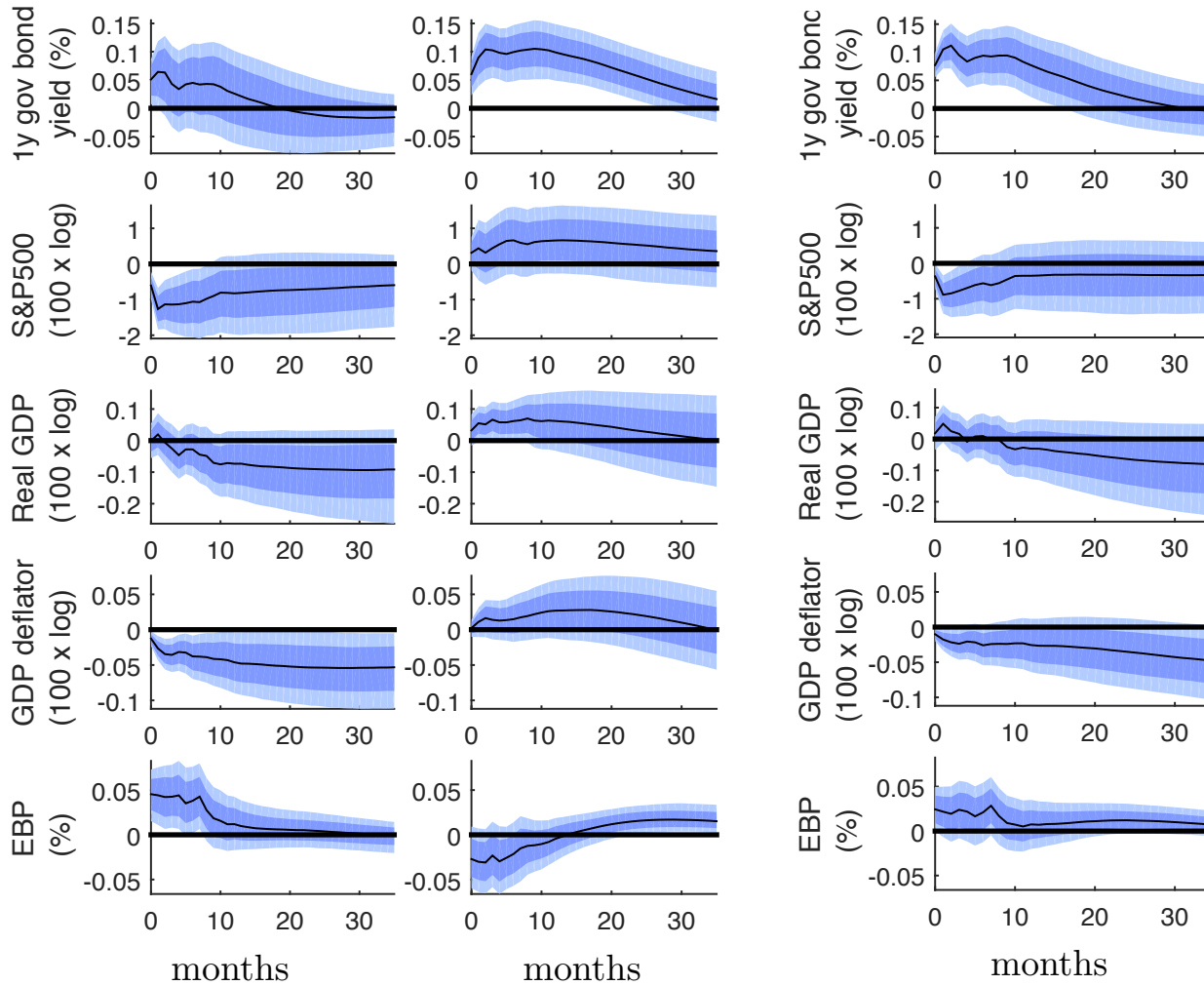


# IRFs

Pure shock

Info shock

No separation



# Praise

- Smart idea
- Careful/nontrivial analysis
- Some discussion of realizations of shock
- I just have some minor comments and questions

# 1. Could identification be more precise?

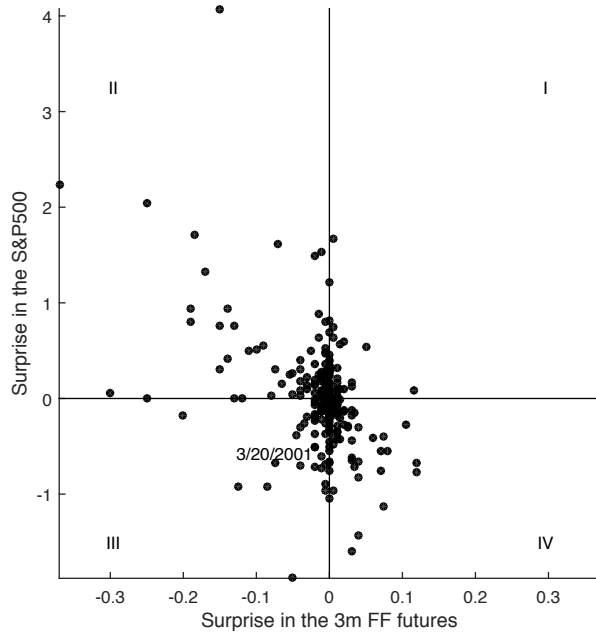
- **Any**  $\Delta r^{ue} > 0 \Rightarrow$  downward pressure on  $\Delta SP_{500}^{ue}$  because of discount-rate effect
- $\Rightarrow$
- $\Delta r^{ue} > 0 +$  “a bit of good news”  $\Rightarrow \Delta SP_{500}^{ue}$  still  $< 0$
- Thus, some negative correlation shocks could be CB information shocks



## 2. Alternative view of the world?

- $\Delta r^{ue}$  has no impact on real activity and SP500 (e.g., NK model with flexible prices)
- but,
- **all** FOMC  $\Delta r^{ue}$ s come with positive or negative news revelation.

## 2. Alternative view of the world?

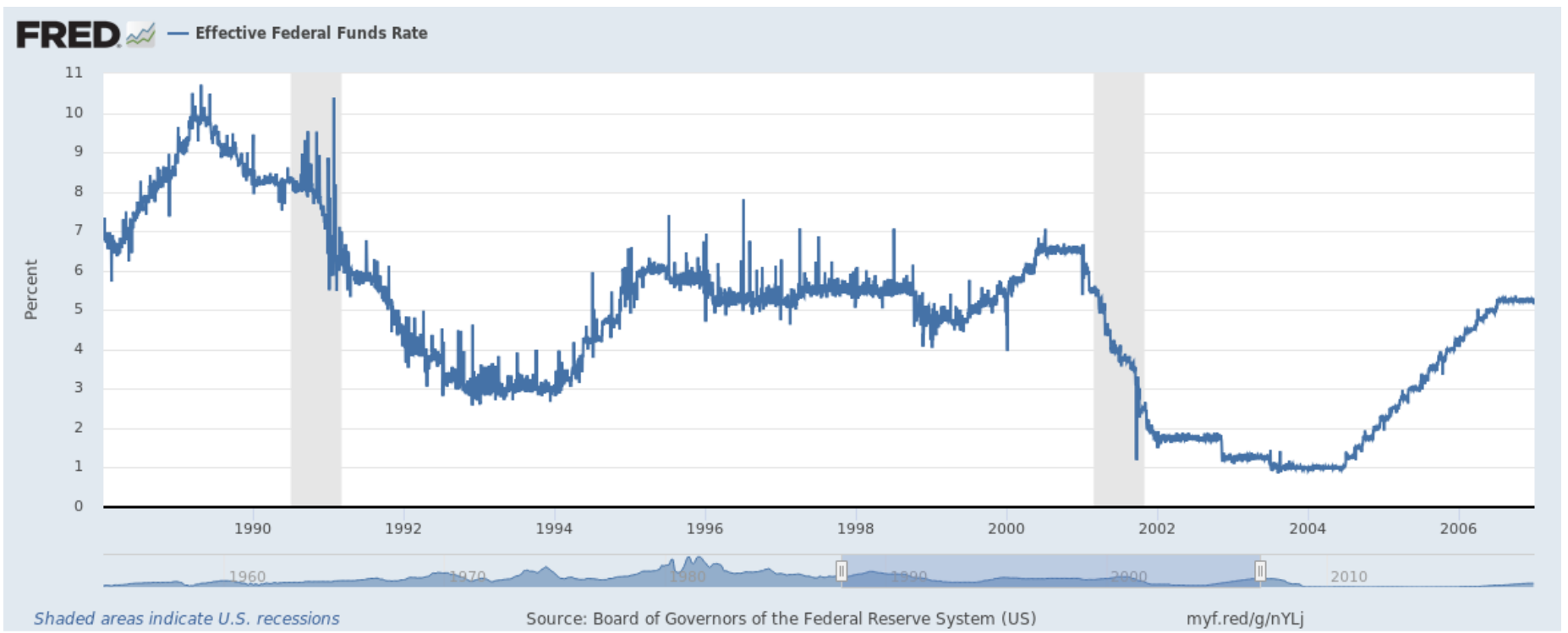


- Alternative view: Dots are randomly distributed across 4 squares
- Wouldn't you still identify a pure monetary policy shock?

### 3. Interpretation of positive comovement shock

- **Paper:**  $\Delta r^{ue} < 0 + \Delta SP_{500}^{ue} < 0 \Rightarrow$  bad news about economy
- **Alternatives:**
  - Change in policy rule (e.g., FED gone crazy)
  - Increased uncertainty about  $r$

# 3. Interpretation of positive comovement shock



## 4. What is a monetary policy shock anyway?

- Reasons behind these disturbances hard to understand!
  - Random bargaining power in committee?
- Estimates are typically small
- This paper's procedure makes them even smaller
  - 1sd shock is 3-6 basis points change in fed funds future
- **Question:** Does it make sense to take these things seriously?

## 5. Magnitudes

- Pure monetary policy disturbance
- $\Rightarrow$  almost permanent impact on output
- $\Rightarrow$  massive impact on SP500
  - Temporary  $\uparrow$  in 1-year government yield with 5bp peak
  - Persistent  $\downarrow$  in SP500 exceeding 100bps
  - Discount rate effect would not come close so you would need big impact on earnings

# Concluding Comments

- This paper allocates part of the usual “pure” monetary policy shock to an information shock
- ⇒
- “Pure” monetary policy shocks become smaller
- Can we continue this process and drive “pure” monetary policy shocks out of existence?