HeiKaMEtrics-Seminar

Joint Heidelberg, Karlsruhe and Mannheim research seminar in Econometrics

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Employment Effects of Unconventional Monetary Policy: Evidence from QE

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Wednesday, November 07, 2018
14:00 – 15:00
Alfred-Weber-Institute
Bergheimer Str. 58, Room 01.030
Heidelberg University

Abstract:

This paper investigates the effect of the Federal Reserve's unconventional monetary policy on employment via a bank lending channel. We find that banks with higher mortgage-backed securities holdings issued relatively more loans after the first and third rounds of quantitative easing (QE1 and QE3). While additional volume is concentrated in refinanced mortgages after QE1, increases are driven by newly originated home purchase mortgages and additional commercial and industrial lending after QE3. Using spatial variation, we show that regions with a high share of affected banks experienced stronger employment growth after both, QE1 and QE3. However, while the ability of households to refinance mortgages after QE1 spurred local demand, the resulting additional employment growth was relatively weak and confined to the non-tradable goods sector. In contrast, the increase in overall employment after QE3 is sizable and can be attributed to the supply of additional credit to firms. To support this finding, we use new confidential loan-level data to show that firms with stronger ties to affected banks increased employment and capital investment more after QE3. Altogether, our findings suggest that unconventional monetary policy can, similar to conventional monetary policy, affect real economic outcomes.

(joint with Stephan Luck, Board of Governors of the Federal Reserve System)