Adv

Oxford Bulletin of Economics and Statistics / Volume 71, Issue 6 / pp. 739-759

Global Financial Transmission of Monetary Policy Shocks*

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First published: 16 October 2009

https://doi.org/10.1111/j.1468-0084.2009.00561.x

* Research support and comments by Laurent Pauwels are gratefully acknowledged. The authors thank two anonymous referees, as well as the participants at the CEPR First Annual Workshop on the Macroeconomics of Global Interdependence and the CESifo MMI Area Conference, in particular the discussants Stefan Gerlach and Mathias Hoffmann, and seminar participants at Free University of Berlin for comments. The views expressed in this paper are those of the authors and do not necessarily reflect those of the European Central Bank.

Abstract

The paper analyses the transmission of US monetary policy shocks to global equity markets and the macroeconomic determinants of the underlying transmission process. We show that there is a substantial cross-country heterogeneity in reactions across 50 equity markets worldwide, with returns falling on average around 2.7% in response to a 100 basis point tightening of US monetary policy, but ranging from a zero response in some to a reaction of 5% or more in other markets. As to the determinants of the strength of transmission to individual countries, we test the relevance of their macroeconomic policies and the role of real and financial integration. We find that in particular the degree of global integration of countries – and not a country's bilateral integration with the United States – is a key determinant for the transmission process.

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