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The Effect of Fed's Quantitative Easing on Stock Volatility

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Abstract

In this paper we have accomplished 3 tasks. (1) By employing several statistical techniques on 2 different sets of data, we show the “Quantitative Easing” policy by Federal Reserve has significant negative impact to the stock market volatility. (2) We proposed a new CEV-class model to for stock volatility, adding to the literature of asymmetric stock volatility, and at the same time use event analysis to account for shocks from external sources, e.g. Fed. (3) We predict that the end of QE2 would induce a short term jump in the stock volatility, which would then goes back to normal levels in the middle term.

Keywords: Quantitative Easing, QE, stock volatility, asymmetric volatility**JEL Classification:** C10[Suggested Citation](#) >[Show Contact Information](#) >[Download This Paper \(Delivery.cfm/SSRN_ID2215423_code1996122.pdf?abstractid=2215423&mirid=1\)](#)[Open PDF in Browser \(Delivery.cfm/SSRN_ID2215423_code1996122.pdf?abstractid=2215423&mirid=1&type=2\)](#)

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