

Published by De Gruyter | February 21, 2014

# Monetary policy and TIPS yields before the crisis

Stefan Gerlach and Laura Moretti 

From the journal [The B.E. Journal of Macroeconomics](#)

<https://doi.org/10.1515/bejm-2012-0154>

 Citations 3

## Abstract

In this paper we study the joint behavior of the federal funds rate and 10-year TIPS yields before the start of the financial crisis in 2007. We make three points. First, the decade before the crisis was characterized by a collapse in the yield on TIPS. Second, estimated VARs for the federal funds rate and the TIPS yield show that while monetary policy shocks had negligible effects on the TIPS yield, shocks to the latter had one-to-one effects on the federal funds rate. Third, these findings can be rationalized in a New Keynesian model.

**Keywords:** [long-term real interest rates](#); [monetary policy](#); [TIPS](#)

Corresponding author: Laura Moretti, Center for Financial Studies, Gruenewaldplatz 1, Frankfurt 60323, Germany, e-mail: [moretti@ifk-cfs.de](mailto:moretti@ifk-cfs.de)

## Acknowledgments

We are grateful to Pooyan Amir Ahmadi, Petra Gerlach, François Gourio, Vivien Lewis and Maik Wolters, participants in the Conference in honor of Paul De Grauwe held at the KU Leuven on November 17–18, 2011 and an anonymous referee for comments. The views expressed here are solely those of the authors.

## References

- Beechey, Meredith J., and Jonathan H. Wright. 2009. “The High-Frequency Impact of News on Long-Term Yields and Forward Rates: Is it Real?” *Journal of Monetary Economics* 56 (4): 535–544.  
[10.1016/j.jmoneco.2009.03.011](https://doi.org/10.1016/j.jmoneco.2009.03.011) (<https://doi.org/10.1016/j.jmoneco.2009.03.011>)
- Bernanke, Ben S. 2005. “Remarks by Governor Ben S. Bernanke: The Global Saving Glut and the US Current Account Deficit.” The Sandridge Lecture, Virginia Association of Economists, Richmond, VA, March 10.
- Bernanke, Ben S. 2010. “Monetary Policy and the Housing Bubble,” Lecture given at the annual meeting of the American Economic Association, Atlanta, January 3.
- Bernanke, Ben S., and Alan S. Blinder. 1992. “The Federal Funds Rate and the Channels of Monetary

- Bernanke, Ben S., and Alan S. Blinder. 1992. "The Federal Funds Rate and the Channels of Monetary Transmission." *American Economic Review* 82 (4): 901–922.
- CGFS. 2006. "Housing Finance in the Global Financial Market." Report No 26, January.
- Clark, Todd E., and Sharon Kozicki. 2004. "Estimating Equilibrium Real Interest Rates in Real-Time." *The North American Journal of Economics and Finance* 16 (3): 395–413.  
[10.1016/j.najef.2005.04.002](https://doi.org/10.1016/j.najef.2005.04.002) (<https://doi.org/10.1016/j.najef.2005.04.002>)
- Edge, Rochelle M., Thomas Laubach, and John C. Williams. 2005. "Monetary Policy and Shifts in Long Run Productivity Growth." mimeo.  
[10.2139/ssrn.530745](https://doi.org/10.2139/ssrn.530745) (<https://doi.org/10.2139/ssrn.530745>)
- Ferguson, Roger W. 2004. "Equilibrium Real Interest Rate: Theory and Application," Remarks by Vice Chairman to the University of Connecticut School of Business Graduate Learning Center and the SS&C Technologies Financial Accelerator, Hartford, Connecticut.
- Gali, Jordi, and Mark Gertler. 1999. "Inflation Dynamics: A Structural Econometrics Analysis." *Journal of Monetary Economics* 44 (2): 195–222.  
[10.1016/S0304-3932\(99\)00023-9](https://doi.org/10.1016/S0304-3932(99)00023-9) ([https://doi.org/10.1016/S0304-3932\(99\)00023-9](https://doi.org/10.1016/S0304-3932(99)00023-9))
- Gürkaynak, Refet S., Brian Sack, and Eric Swanson. 2005. "The Sensitivity of Long-Term Interest Rates to Economic News: Evidence and Implications for Macroeconomic Models." *American Economic Review* 95 (1): 425–440.  
[10.1257/0002828053828446](https://doi.org/10.1257/0002828053828446) (<https://doi.org/10.1257/0002828053828446>)
- Justiniano, Alejandro, and Giorgio E. Primiceri. 2010. "Measuring the Equilibrium Real Interest Rate." Federal Reserve Bank of Chicago. *Economic Perspectives* 34 (1): 14–27.
- Laubach, Thomas, and John C. Williams. 2003. "Measuring the Natural Rate of Interest." *The Review of Economics and Statistics* 85 (4): 1063–1070.  
[10.1162/003465303772815934](https://doi.org/10.1162/003465303772815934) (<https://doi.org/10.1162/003465303772815934>)
- Lombardi, Marco J., and Silvia Sgherri. 2007. "(Un)naturally Low? Sequential Monte Carlo Tracking of the US Natural Interest Rate." ECB Working Paper No. 794.  
[10.2139/ssrn.1003969](https://doi.org/10.2139/ssrn.1003969) (<https://doi.org/10.2139/ssrn.1003969>)
- Lütkepohl, Helmut. 2005. *New Introduction to Multiple Time Series Analysis*. Berlin, Heidelberg: Springer-Verlag.  
[10.1007/978-3-540-27752-1](https://doi.org/10.1007/978-3-540-27752-1) (<https://doi.org/10.1007/978-3-540-27752-1>)
- Obstfeld, Maurice, and Kenneth Rogoff. 2009. "Global Imbalances and the Financial Crisis: Product of Common Causes." mimeo.
- Rajan, Raghuram. 2005. "Has Financial Development Made the World Riskier?" Proceedings of the Jackson Hole Conference organized by the Kansas City Fed.  
[10.3386/w11728](https://doi.org/10.3386/w11728) (<https://doi.org/10.3386/w11728>)
- Taylor, John B. 2007. "Housing and Monetary Policy," NBER Working Paper Series 13682. Cambridge, MA: National Bureau of Economic Research.  
[10.3386/w13682](https://doi.org/10.3386/w13682) (<https://doi.org/10.3386/w13682>)
- Taylor, John B. 2008. "The Financial Crisis and the Policy Responses: An Empirical Analysis of What Went Wrong." NBER Working Paper Series 14631. Cambridge, MA: National Bureau of Economic Research.  
[10.3386/w14631](https://doi.org/10.3386/w14631) (<https://doi.org/10.3386/w14631>)
- Walsh, Carl E. 2010. *Monetary Theory and Policy*. Cambridge, MA: MIT Press.
- Williams, John C. 2003. "The Natural Rate of Interest." *FRBSF Economic Letter* 2003–32.
- Woodford, Michael. 2003. *Interest and Prices: Foundations of a Theory of Monetary Economics*. Princeton, NJ: Princeton University Press.

Woodford, Michael. 2003. *Interest and Prices: Foundations of a Theory of Monetary Economics*. Princeton, NJ: Princeton University Press.

[10.1515/9781400830169](https://doi.org/10.1515/9781400830169) (<https://doi.org/10.1515/9781400830169>)

**Published Online:** 2014-2-21

**Published in Print:** 2014-1-1

©2014 by De Gruyter

## From the journal



**The B.E. Journal of Macroeconomics**  
Volume 14 Issue 1

---

## Articles in the same Issue

Frontmatter

---

### Advances

Optimal portfolios with wealth-varying risk aversion in the neoclassical growth model

Inventories and the stockout constraint in general equilibrium

Optimal second best taxation of addictive goods in dynamic general equilibrium: a revenue raising perspective

Inflation effects on capital accumulation in a model with residential and non-residential assets

Optimal capital-income taxation in a model with credit frictions

---

## Contributions

---

Interest rate fluctuations and equilibrium in the housing market

---

News shocks and learning-by-doing

---

Capacity utilization and the effects of energy price increases in Japan

---

Small-scale New Keynesian model features that can reproduce lead, lag and persistence patterns

---

Optimal policy and Taylor rule cross-checking under parameter uncertainty

---

The impact of American and British involvement in Afghanistan and Iraq on health spending, military spending and economic growth

---

Why does natural resource abundance not always lead to better outcomes? Limited financial development versus political impatience

---

The skill bias of technological change and the evolution of the skill premium in the US since 1970

---

Aggregate impacts of recent US natural gas trends

---

Organizational learning and optimal fiscal and monetary policy

---

Industrial specialization, financial integration and international consumption risk sharing

---

Leverage, investment, and optimal monetary policy

---

Public debt in an OLG model with imperfect competition: long-run effects of austerity programs and changes in the growth rate

---