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ARTICLE

Monetary policy and TIPS yields before the crisis

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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

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