The Effects of Quantitative Easing on Interest Rates: Channels and Implications for Policy

Arvind Krishnamurthy & Annette Vissing-Jorgensen

SHARE

WORKING PAPER 17555

DOI 10.3386/w17555

ISSUE DATE October 2011

We evaluate the effect of the Federal Reserve's purchase of long-term Treasuries and other long-term bonds ("QE1" in 2008-2009 and "QE2" in 2010-2011) on interest rates. Using an event-study methodology we reach two main conclusions. First, it is inappropriate to focus only on Treasury rates as a policy target because QE works through several channels that affect particular assets differently. We find evidence for a signaling channel, a unique demand for long-term safe assets, and an inflation channel for both QE1 and QE2, and an MBS pre-payment channel and a corporate bond default risk channel for QE1. Second, effects on particular assets depend critically on which assets are purchased. The event-study suggests that (a) mortgage-backed securities purchases in QE1 were crucial for lowering mortgage-backed security yields as well as corporate credit risk and thus corporate yields for QE1, and (b) Treasuries-only purchases in QE2 had a disproportionate effect on Treasuries and Agencies relative to mortgage-backed securities and corporates, with yields on the latter falling primarily through the market's anticipation of lower future federal funds rates.

Download a PDF

Information on access

Acknowledgements and Disclosures

Citation and Citation Data

Published Versions

Brookings Papers on Economic Activity The Effects of Quantitative Easing on Interest Rates: Channels and Implications for Policy Fall 2011, Annette Vissing-Jorgensen and Arvind Krishnamurthy citation courtesy of RePEc

Related

TOPICS

Macroeconomics
Money and Interest Rates
Monetary Policy
Financial Economics
Financial Markets

PROGRAMS

Asset Pricing
Economic Fluctuations and Growth
Monetary Economics

More from the NBER

In addition to working papers, the NBER disseminates affiliates' latest findings through a range of free periodicals—the NBER Reporter, the NBER Digest, the Bulletin on Health, the Bulletin on the Economics of Alzheimer's, and the Bulletin on Entrepreneurship—as well as research spotlights, lectures, and panel videos.

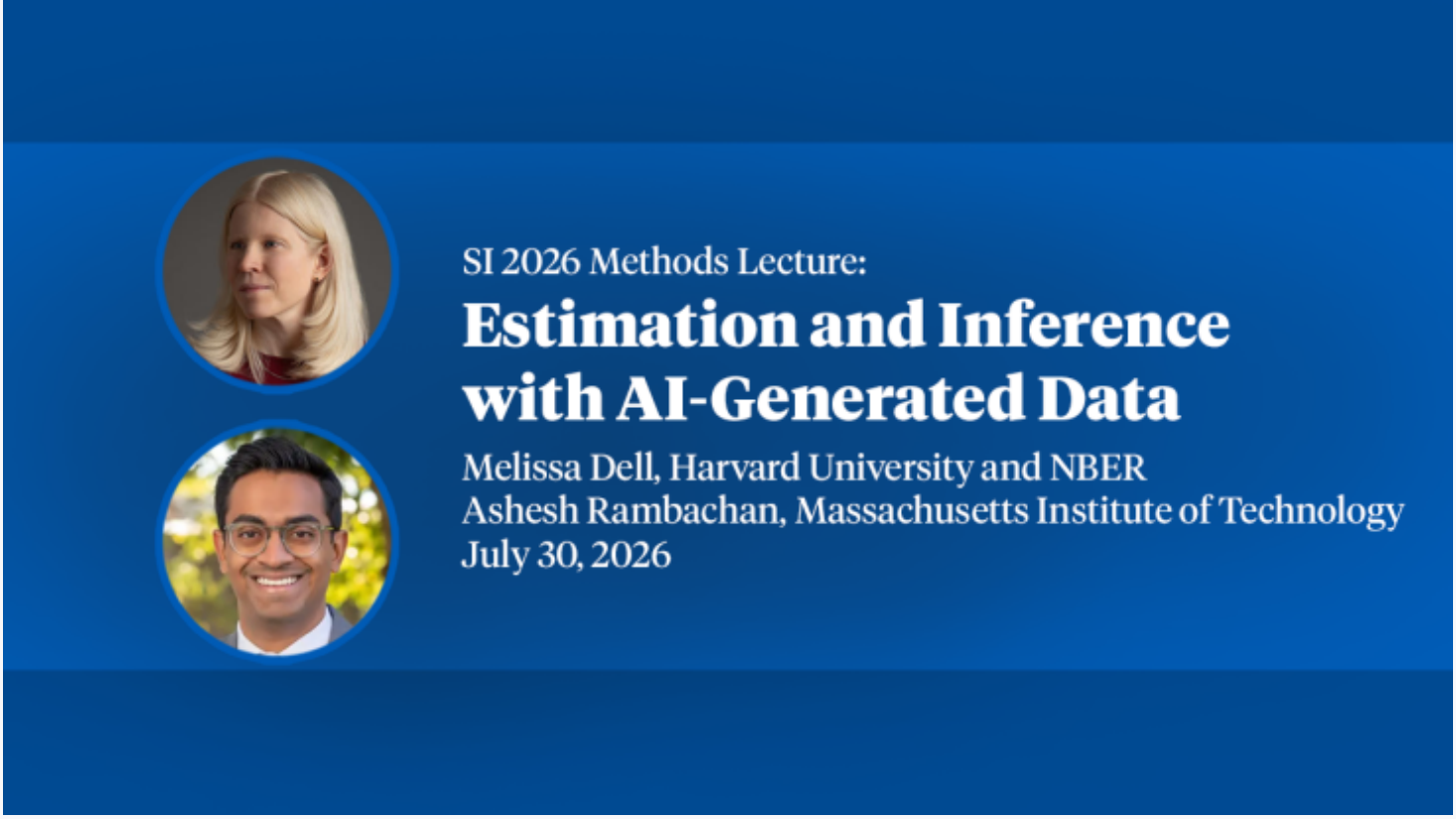


2026, 18th Annual Feldstein Lecture, Mark Duggan, "Social Security Reform in an Era of Fiscal Deficits"

FELDSTEIN LECTURE

PRESENTER: MARK DUGGAN

Mark Duggan, who is currently the Wayne and Jodi Cooperman Professor of Economics at Stanford University and will soon...



2026, Methods Lecture, Melissa Dell and Ashesh Rambachan, "Estimation and Inference with AI-Generated Data"

METHODS LECTURES

PRESENTERS: MELISSA DELL & ASHESH RAMBACHAN

Research Associate Melissa Dell of Harvard University and Ashesh Rambachan of MIT delivered the 2026 Methods...



2026, SI Household Finance, Paul Goldsmith-Pinkham, "Using AI in Household Finance Research: A Practical Guide"

VIDEO

PRESENTER: PAUL GOLDSMITH-PINKHAM

Supported by the Vanguard Group

National Bureau of Economic Research

Contact Us
1050 Massachusetts Avenue
Cambridge, MA 02138
617-868-3900
info@nber.org
webaccessibility@nber.org

© 2026 NATIONAL BUREAU OF ECONOMIC RESEARCH. ALL RIGHTS RESERVED.