Abstract

Traditional macroeconomics believes that confidence is not the main cause of economic fluctuations, but when faced with financial crises, monetary authorities still emphasize the role of stabilizing confidence. Although people generally agree that confidence is an important part of the transmission of macro-policies to micro-individuals, there is neither empirical evidence support nor corresponding mechanism research. This thesis attempts to answer the following questions: Does business confidence affect the effectiveness of monetary policy? Does business confidence have the same impact on monetary policy in different economic periods?

This thesis first constructed a structural vector auto-regression (SVAR) model to test the role of business confidence in the transmission of monetary policy in the euro area. The empirical results show that expansionary monetary policy can effectively boost business confidence while stimulating output growth. In addition, this thesis extends the model by introducing share prices and exchange rates to investigate the role of these two important to the monetary transmission mechanism, concluding that business confidence plays a strong role in interest rate transmission and a weaker role in the transmission of asset prices and exchange rates. Subsequently, in order to verify the influence of business confidence with different lead times and different time points on monetary policy, this thesis established a time-varying parameter vector autoregression (TVP-VAR) model. The role of confidence in the transmission of monetary policy is mainly manifested as a short-term impact, which gradually weakens in the long-term. Moreover, at different stages of economic development, the business confidence index has different effects on the transmission of monetary policy. In times of economic crisis, the role of confidence will be more sensitive.

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