Abstract

The thesis focuses on estimating the effect of expansionary monetary policy concerning asset prices, specifically house and stock prices as they are of primary importance in financial markets. A structural vector autoregressive model is used including data for the Euro Area, the United Kingdom, and the United States from 2007 to 2017. Moreover, instead of short-term nominal interest rate, the shadow policy rate is used to measure the stance of both conventional and unconventional monetary policy. It is useful when policy rates of central banks are at or near zero as it neglects the zero-lower bound. Using both impulse response functions and forecast error variance decomposition, results suggest that higher interest rates are indeed associated with lower asset prices. That is confirmed by including two different estimates of shadow rates into the model and observing the effect for two specific types of assets. More precisely, house prices react almost immediately showing the most substantial decrease for the United Kingdom, while stock prices slightly increase at first and decrease afterward with similar size of the effect for all areas under consideration. Finally, the discussion of how the monetary authority should react to asset price fluctuations is provided, summarizing the vast amount of literature on the topic about 'lean vs. clean' debate. In conclusion, after the crisis, there is strong support for the argument that monetary authority should consider the development of asset markets as the center viewpoint of the macroeconomic analysis.

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