

Abstract

This thesis provides analyses of the impact of monetary policy on stock market returns under the zero lower bound. Using a VAR model with time-varying parameters and stochastic volatility, it aims to verify and reconfirm the relevance of monetary policy for stock market returns. This investigation has been carried out on the cases of the U.S., the E.U., and the U.K. When the interest rate is being constrained by the zero lower bound, the interest rate is approximated by the shadow interest rate in the spirit of Kippner or Wu-Xia. The findings can be summarized in three main points. Firstly, it is shown that stock markets react positively to negative shock into shadow interest rate, so the central banks were able to affect asset prices even after the interest rates hit the zero lower bound. Secondly, the impulse response functions suggest that even though the monetary policy is able to affect asset prices, it does so by being less effective. Thirdly, the analyses revealed the cross-country differences in each of the cases, as the monetary policy impact changes across samples both in terms of efficacy and magnitude.