

Asset purchases: evidence

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Abstract

Event studies, term-premium decompositions, macro estimates, and why central bank researchers find larger effects than academics.

The channels in Asset purchases: channels are theory. Whether purchases lowered rates, and whether lower rates raised output and inflation, are empirical questions with a large literature and a narrower range of answers than the debate suggests.

Event studies of yields

The first evidence came from announcement effects. Gagnon, Raskin, Remache and Sack summed the changes in yields over the days on which the Fed announced or signalled its first programme and found the ten-year Treasury yield fell by somewhere between 30 and 100 basis points depending on the event set, with most of the fall in the term premium (Gagnon et al., 2011). Krishnamurthy and Vissing-Jorgensen used the same method across asset classes and found that the effects differed by asset in ways that pointed to several channels at once: a safety premium on Treasuries, prepayment risk in mortgage-backed securities, signalling about future rates (Krishnamurthy & Vissing-Jorgensen, 2011).

Definition 1 (Event-study identification). Measure the change in asset prices in a narrow window (a day, or thirty minutes) around an announcement and attribute it to the announcement, on the argument that nothing else systematic happens in the window. It identifies the *financial* effect well and the *macroeconomic* effect not at all, because the latter unfolds over quarters.

The method has known limits. Effects measured in windows may reverse within weeks; later programmes were increasingly anticipated, so the announcement window captures only the surprise; and the first programme was launched into a market crisis, which inflates the liquidity component. The estimates for QE2 and QE3 were smaller, in the range of 10 to 30 basis points on ten-year yields for programmes of comparable size.

Separating guidance from purchases

Swanson's decomposition, introduced in Forward guidance, uses the fact that guidance and purchases load differently across maturities and asset classes: guidance moves two- to five-year yields, purchases move ten-year yields and mortgage rates (Swanson, 2021). Both survive as distinct instruments in the data, and the purchase effect is concentrated in the term premium. This is the strongest evidence that the portfolio-balance channel is real rather than a relabelled expectations effect.

From yields to the economy

Estimating what lower long rates did to output and inflation requires a model. Weale and Wieladek used a vector autoregression with purchase announcements as the shock and found that purchases of one percent of GDP raised real GDP by a fraction of a percent and CPI by a similar order in both the United States and the United Kingdom (Weale & Wieladek, 2016). Structural models that feed the estimated yield changes through conventional transmission give effects of the same sign and broad magnitude. Bhattarai and Neely surveyed the international evidence and concluded that purchases lowered yields and supported activity in

every major economy, with the caveat that the effects were larger in stressed markets and at the start of programmes (Bhattarai & Neely, 2022).

Who finds what

Fabo, Jančoková, Kempf and Pástor compared over fifty studies and found that papers written by central bank economists report larger and more significant effects of purchases on output and inflation than papers by academics, and that central bank authors who report larger effects have better subsequent careers at their institutions (Fabo et al., 2021). The finding does not say who is right; it says that the literature’s centre of gravity is not a neutral estimate, and that a reader should weight the source.

A summary a policymaker could use

Question	Answer the evidence supports
Did purchases lower long yields?	Yes, by tens of basis points per programme, more in crises
Through which channel?	Term premium mainly, signalling substantially, liquidity in stressed markets
Did they raise output and inflation?	Yes, modestly; magnitudes are model-dependent
Were later programmes as effective?	Less so, because they were anticipated and markets were calm
Who reports the largest effects?	Central bank researchers

Bernanke’s own assessment, that the combination of purchases and guidance can deliver roughly three percentage points of additional easing when the policy rate is at the bound, sits at the optimistic end of this range and is the best statement of the case that the tools work (Bernanke, 2020).

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