Long Run Effects of QE: Evidence from Microdata

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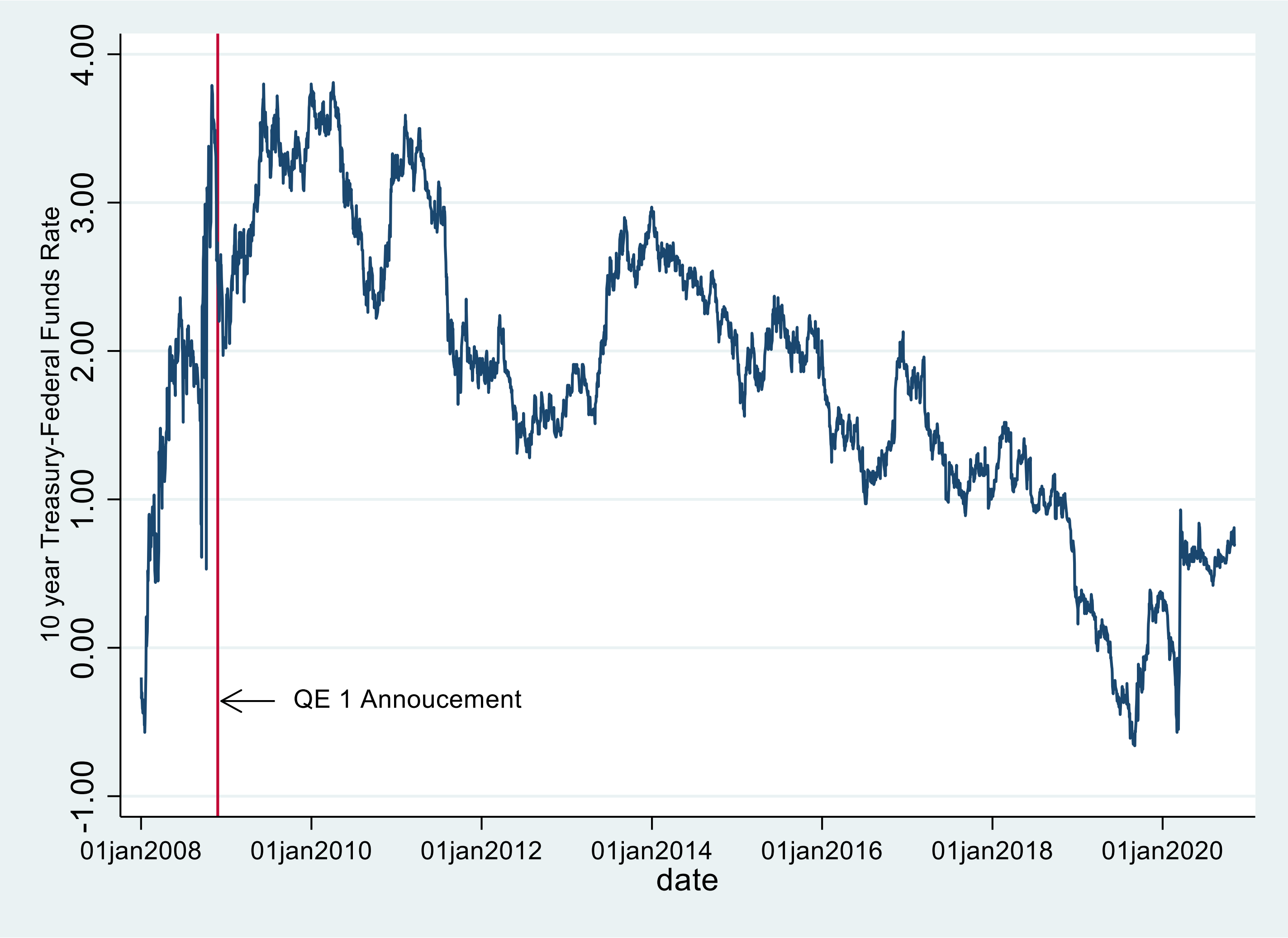
Yield curve management and asset purchases are the new normal

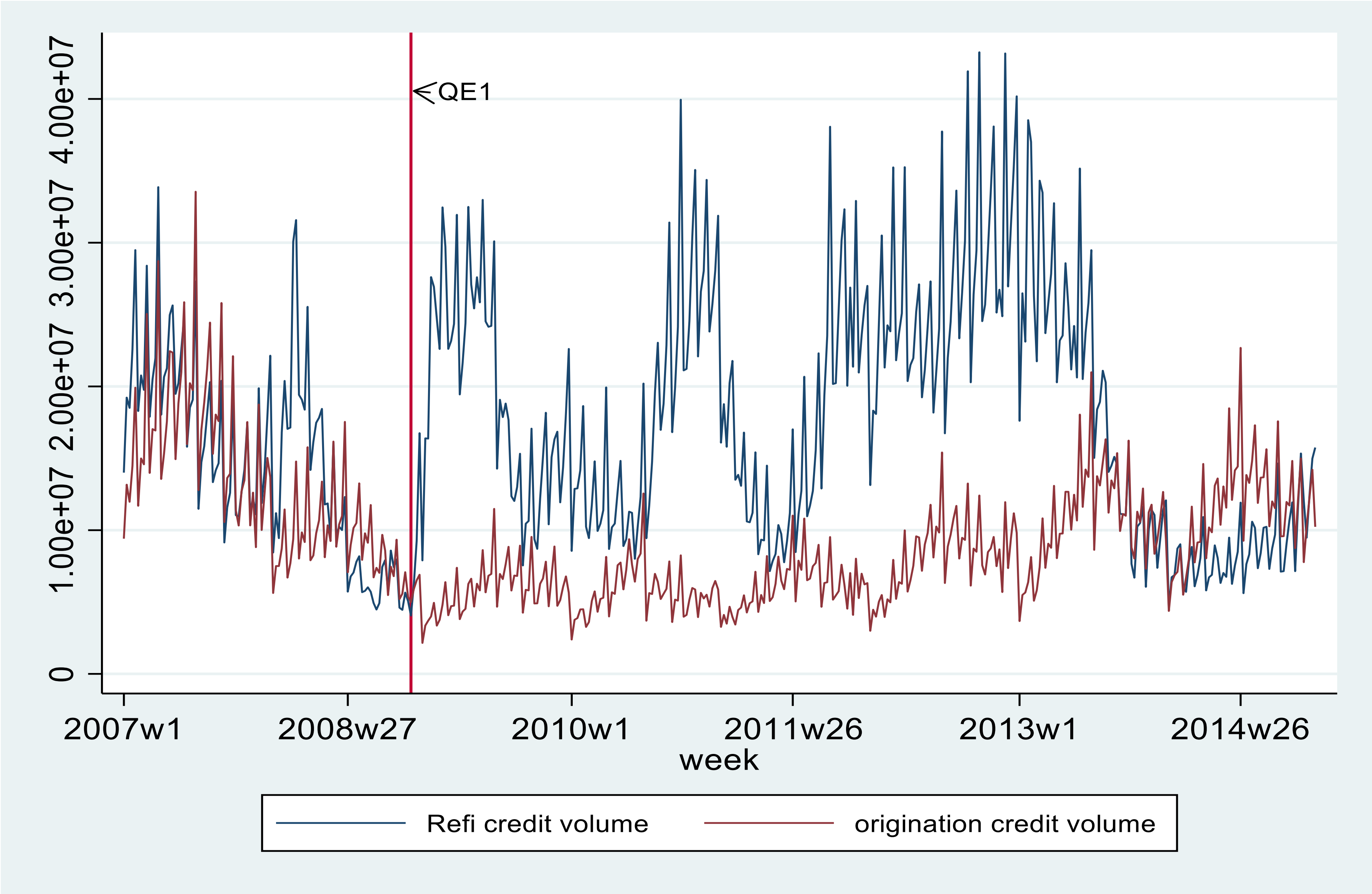


How does it work

- Provide liquidity to banks to make loans (EU)
- Investors rebalance portfolio into riskier assets (CRE)
- Boost asset prices (reduce long run discount rate)
- **Mortgage market!!!**

mortgage market

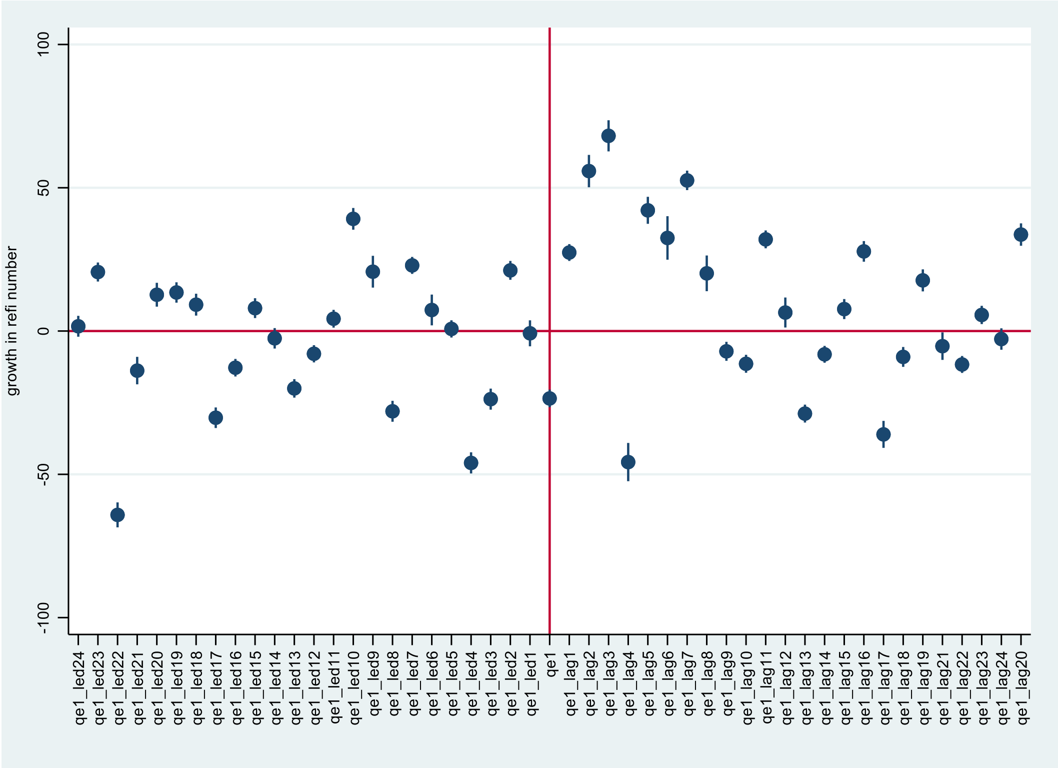
- Lower mortgage rates
- Borrowers refinance and lower their monthly payments
- Boost consumption and house prices

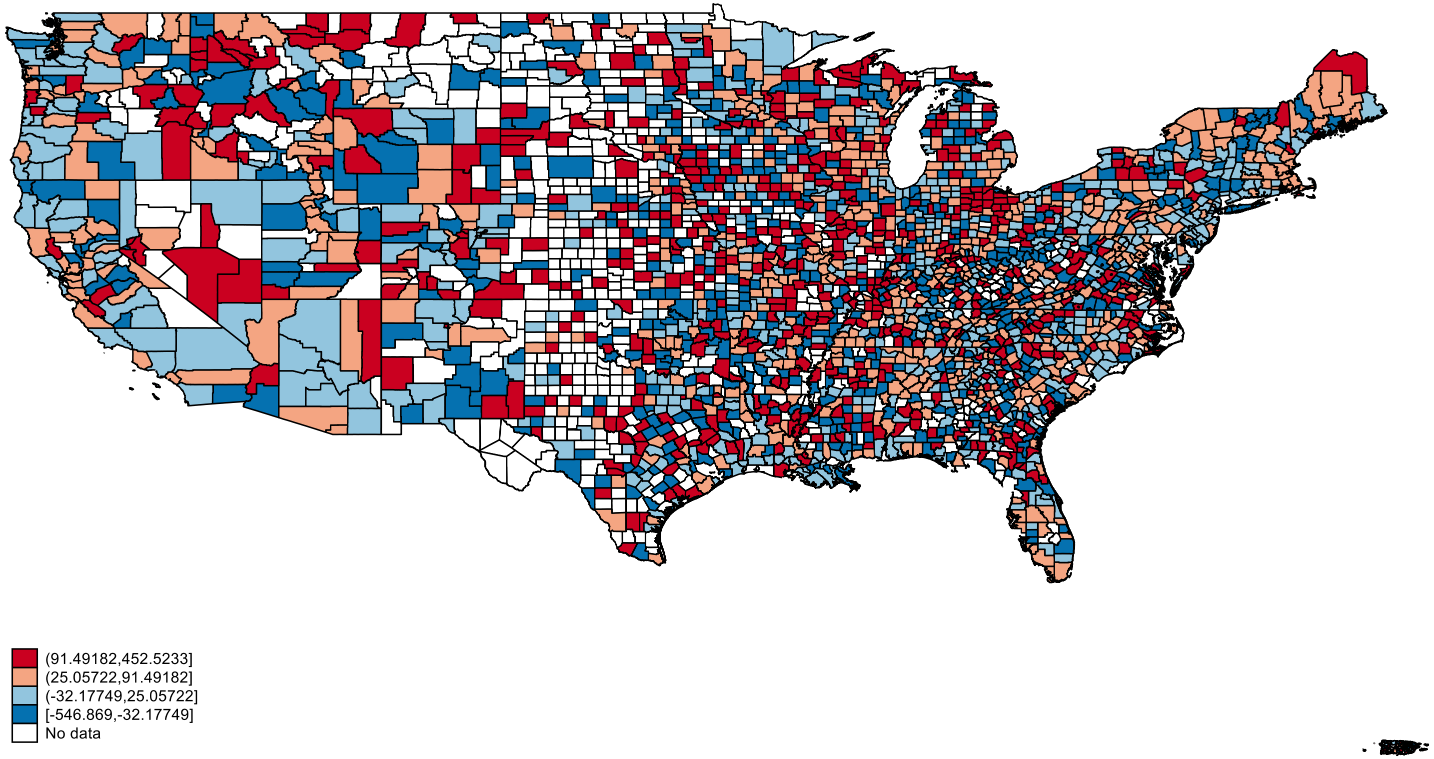


QE1
0
1.00e+07
2.00e+07
3.00e+07
4.00e+07
2007w1
2008w27
2010w1
2011w26
2013w1
2014w26
week
Refi credit volume
origination credit volume

It worked

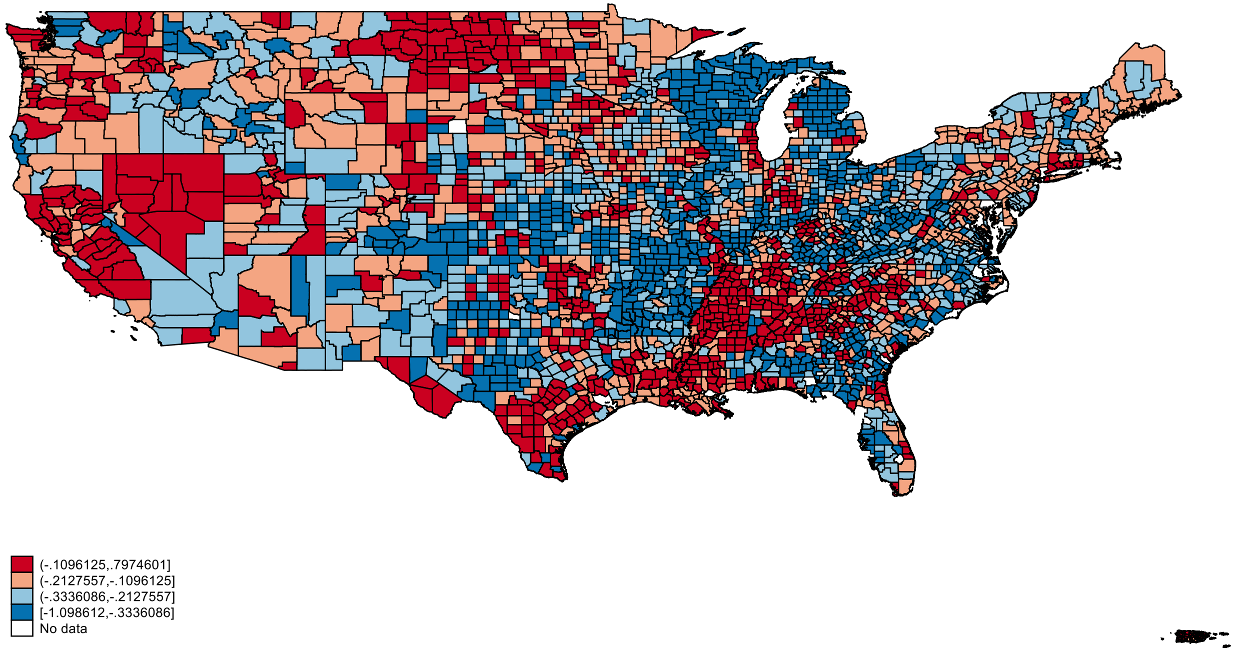
“Abnormal” change in refis growth



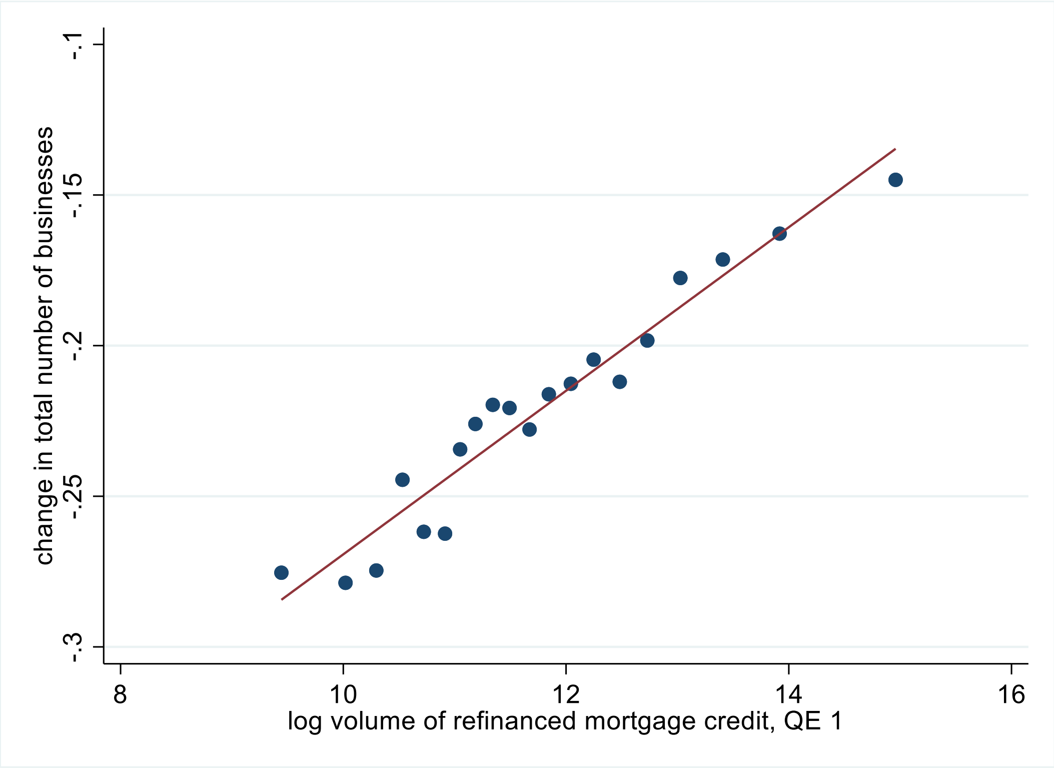


Change in refi activity by county, after QE1

Change in the Number of Businesses, 2009Q4-2015Q4



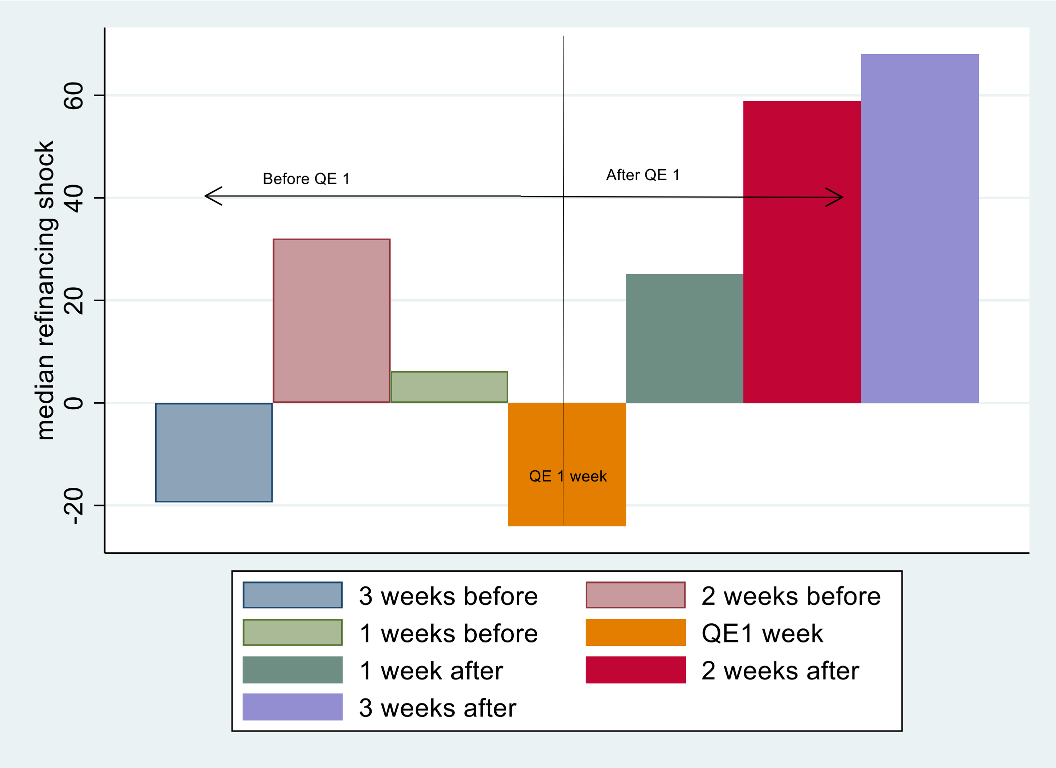
Did Refi Activity Impact Business Formation?



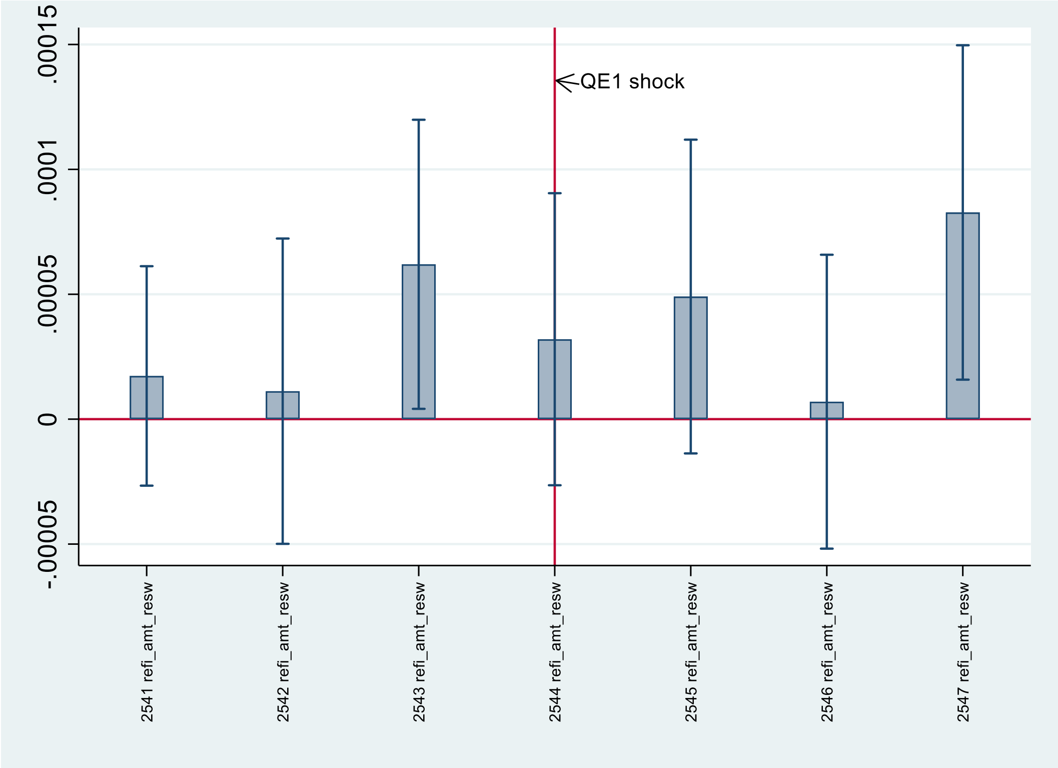
Compute QE Refi Shocks

Weekly refi activity in county *i* on week *t*= constant+coeff*Weekly refi activity in county *i* on week *t-1* +residual on QE 1 week

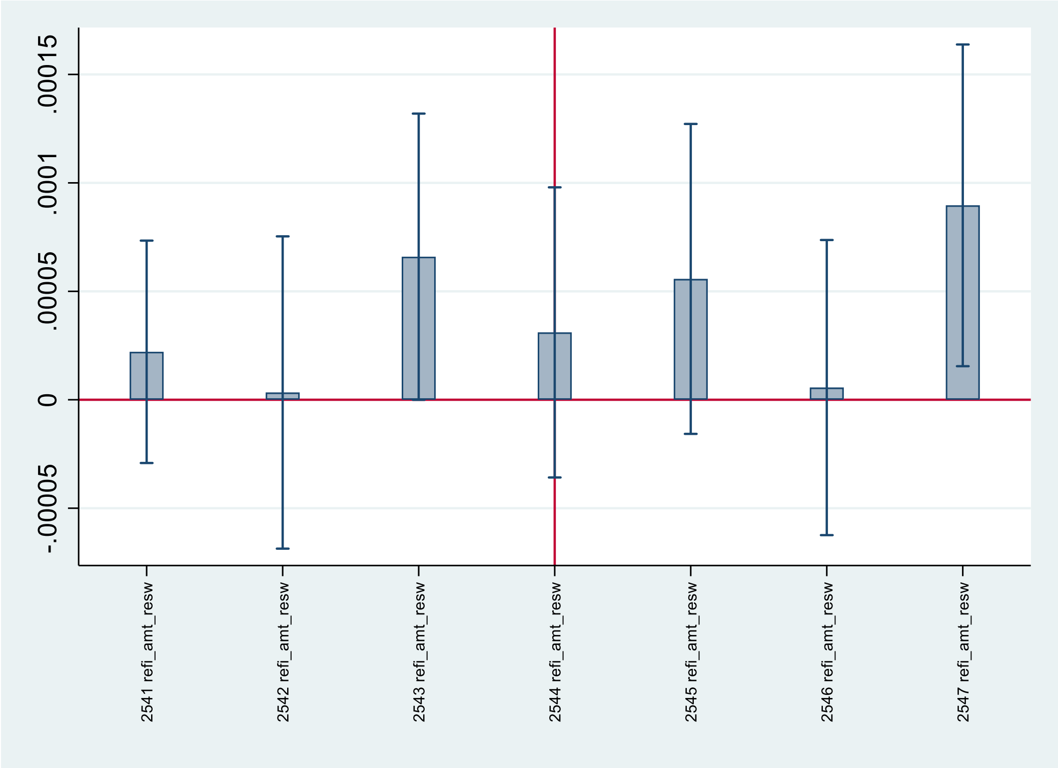
The part of refi activity that cannot be explained by momentum just around QE 1—this is the QE 1 impact on refi activity in the county—refinancing shock


median refinancing shock
60
40
20
0
-20
Before QE 1
After QE 1
QE 1 week
3 weeks before
2 weeks before
1 weeks before
QE1 week
1 week after
2 weeks after
3 weeks after

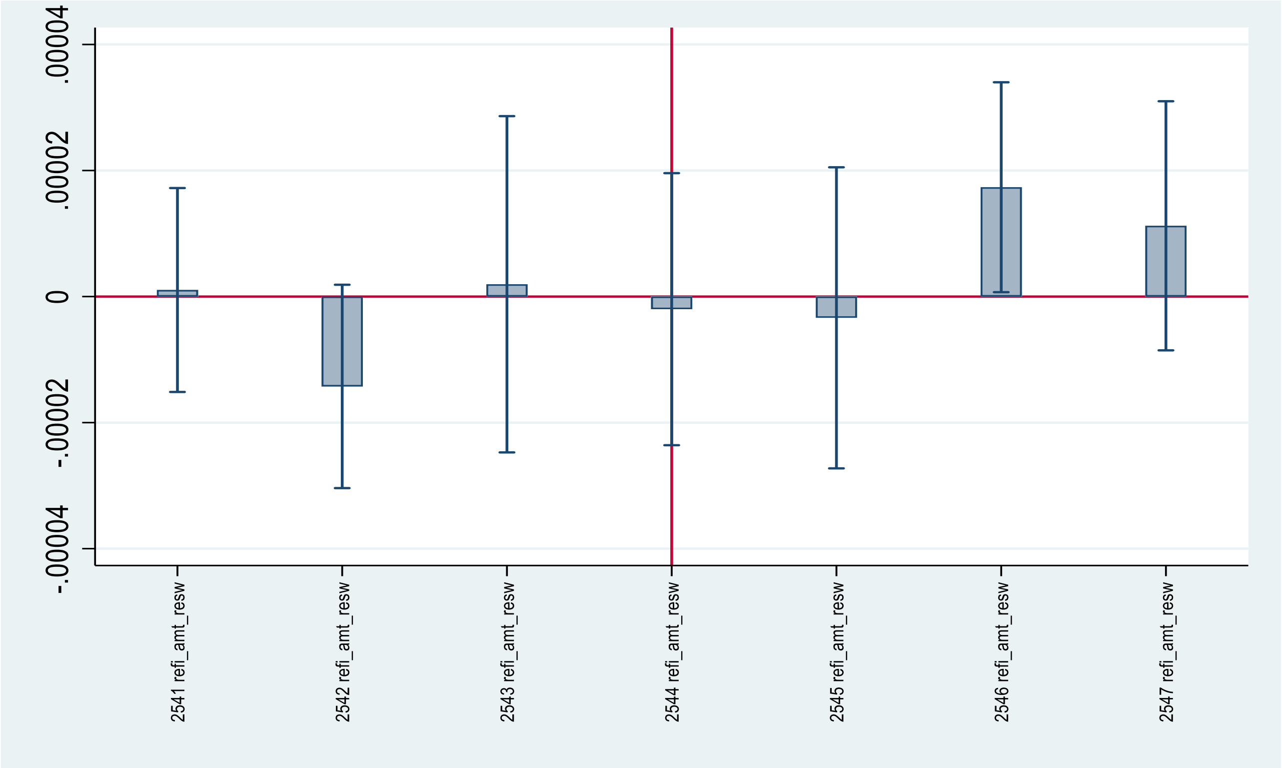
Impact of refi shock on business growth

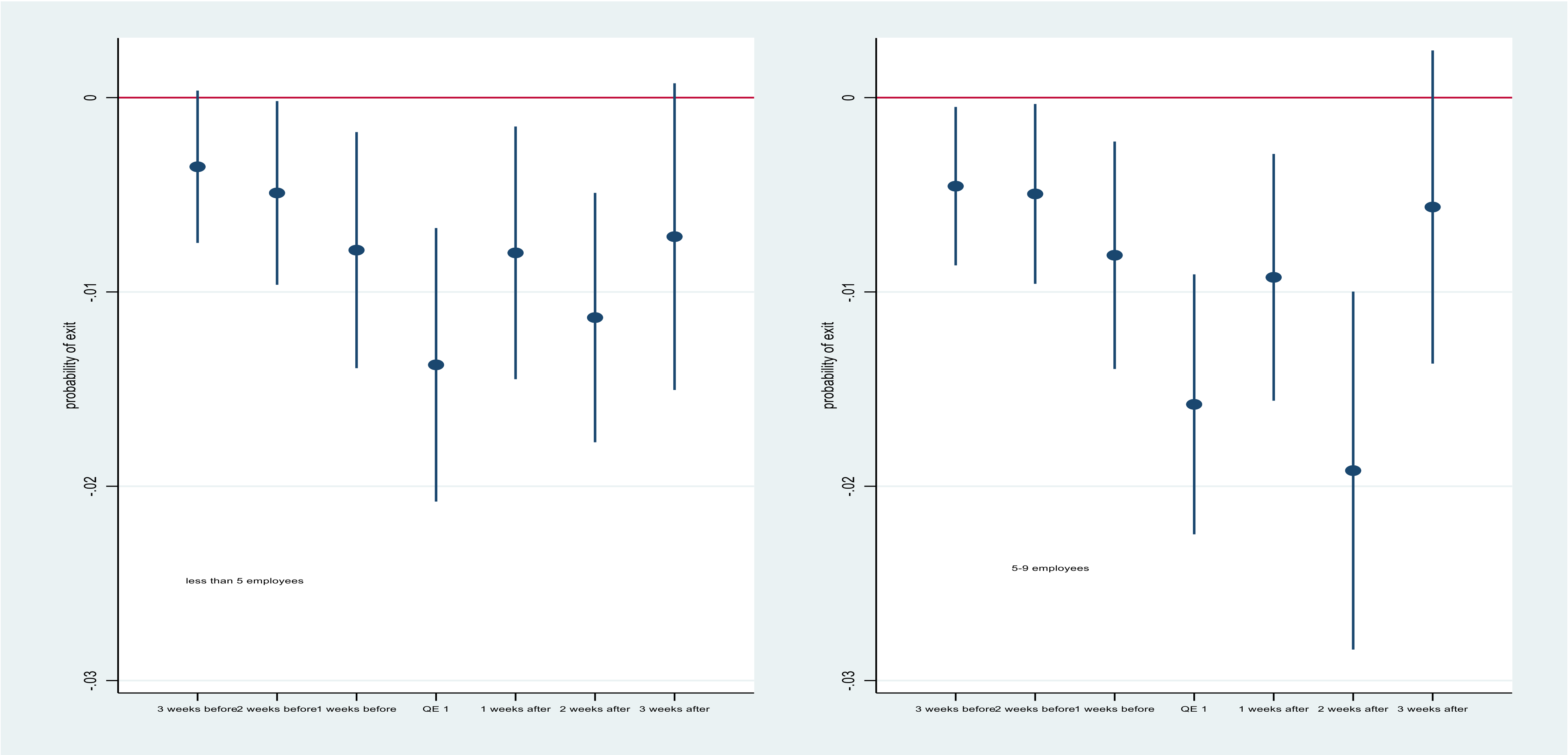


Impact of refi shock on ratio of entrants to exits

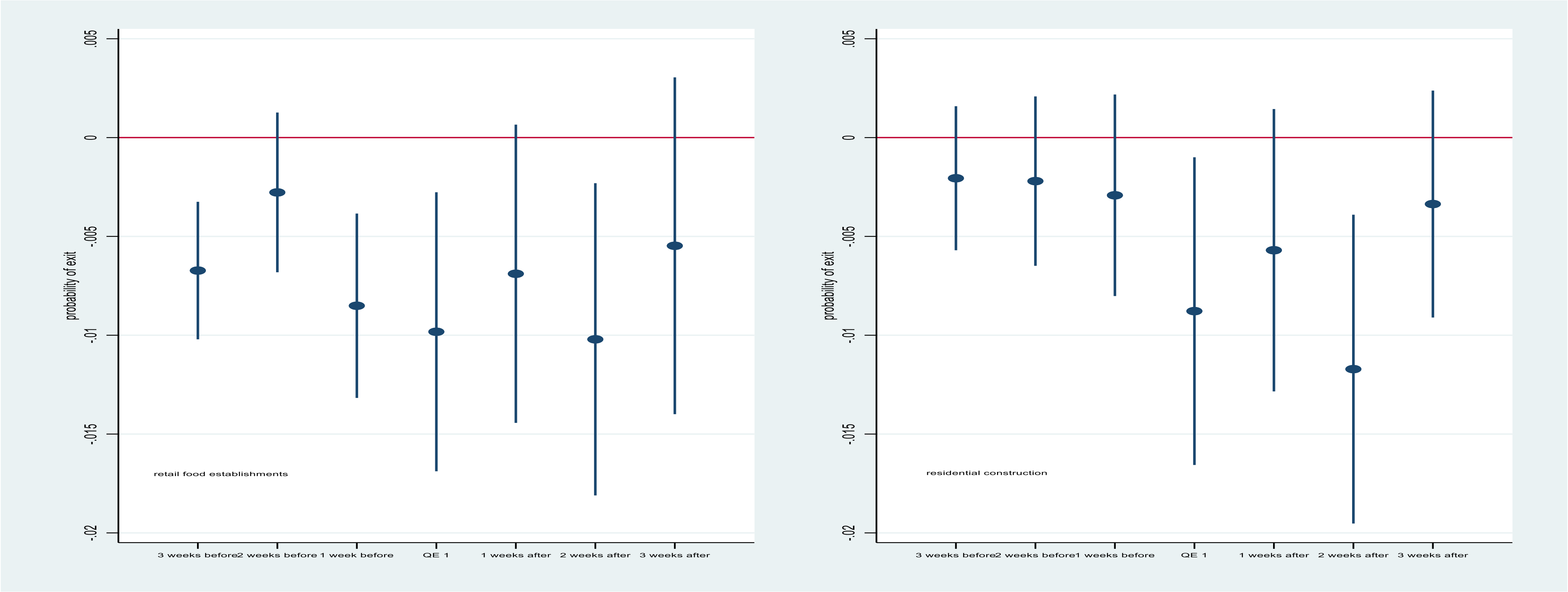


Impact of refi shock on average credit score in county





0
-.01
-.02
-.03
probability of exit
less than 5 employees
3 weeks before
2 weeks before
1 weeks before
QE 1
1 weeks after
2 weeks after
3 weeks after
5-9 employees



probability of exit
.005
0
-.005
-.01
-.015
-.02
retail food establishments
3 weeks before
2 weeks before
1 week before
QE 1
1 weeks after
2 weeks after
3 weeks after
residential construction
1 weeks before

Discussion/Questions

The housing market is an important channel for monetary policy and yield curve management

The effects seem to last a long time—an opportunity for investors

Not everyone benefits

Economic activity and business formation is slower in 2015 in places where households could **NOT** easily refinance in 2009!

Is (unconventional) monetary policy worsening inequality?

Would fiscal policy/targeted transfers/ or refinancing been more effective?

Is (unconventional) monetary policy worsening political dysfunction?