

# Evaluating the Behavior of the Federal Reserve

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## Bernanke & Blinder (1992): VAR

- when  $u \uparrow$  by 18 bp, FFR  $\uparrow$  by 28 bp
- $\Rightarrow$  FFR  $\uparrow$  by  $28/18 \approx 1.6$  pp when  $u \uparrow$  by 1 pp
- $\Rightarrow$  b/c  $u^*$  is so stable, FFR  $\uparrow$  by 1.5 pp when  $u - u^* \uparrow$  by 1 pp
- . close to 2 pp
- . consistent w/ optimal policy.

## Stock & Watson (2001):

- on impact, FFR  $\downarrow$  by 2 pp when  $u \uparrow$  by 1 pp
- after 1 year, FFR  $\downarrow$  by 3.2 pp &  $u \uparrow$  by 1.5 pp
- $\Rightarrow$  FFR  $\downarrow$  by  $3.2/1.5 =$  2.1 pp when  $u \uparrow$  by 1 pp

## Covid-19 tightening:



