Economic Review

Monetary Policy and Intangible Investment

by: Cooper Howes and Alice von Ende-Becker

March 24, 2022

Investment in intangible goods, such as software or research and development, is less sensitive to changes in interest rates.

Since 1980, the share of business investment in "intangible" goods, such as software or research and development, has tripled. This shift in the composition of investment may have important implications for monetary policy. For example, some research suggests intangible investment is far less sensitive than tangible investment to changes in interest rates, both because intangible investment is less likely to be financed through bank loans and because intangible goods have a shorter useful lifespan. As a result, monetary policy could become less effective as intangible investment continues to gain prominence in the economy.

Cooper Howes and Alice von Ende-Becker provide a simple framework to explain how the financing structure and depreciation rate of intangible investment cause it to respond differently to changes in interest rates and then analyze what these properties imply for the efficacy of monetary policy. Building on the findings of Döttling and Ratnovski (2021), they show that monetary policymakers may need to adjust their approach to managing the economy as the share of intangible investment continues to grow.

Publication information: Vol. 107, no. 2
DOI: 10.18651/ER/v107n2HowesvonEndeBecker