



Research Working Papers

Forward Guidance, Monetary Policy Uncertainty, and the Term Premium

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Forward guidance about future monetary policy can materially affect term premia in bond markets, even without large-scale asset purchases.

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When the Federal Reserve provides greater clarity about the path of future interest rates, term premia in longer-term bonds fall and economic activity increases. This interest rate uncertainty channel of forward guidance sheds light on three important issues in macroeconomics. First, this channel explains how forward guidance shapes term premia, both away from and at the zero lower bound. Second, our mechanism offers a novel explanation for the puzzling fact that monetary policy announcements affect distant real forward rates. Finally, we show that event studies overstate the effects of large-scale asset purchases when they fail to control for simultaneous forward guidance.

Additional Files: [Appendix](#)

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Article Citations

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Related Research

- [Uncertainty Shocks in a Model of Effective Demand](#)
- [Monetary Policy Uncertainty and Economic Fluctuations](#) (https://papers.ssrn.com/sol3/papers.cfm?abstract_id=2504590)
- [Measuring Economic Policy Uncertainty](#) (https://people.stanford.edu/nbloom/sites/default/files/qje_bbd.pdf)

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