

News Release

THE FEDERAL RESERVE BANK *of* KANSAS CITY

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THE EFFICACY OF LARGE-SCALE ASSET PURCHASES AT THE ZERO LOWER BOUND

The recent financial crisis demanded innovative and unconventional ideas from policymakers around the globe. In the United States, the Federal Open Market Committee (FOMC) took unprecedented actions, including lowering the federal funds rate to near zero and then, several months later, making large-scale purchases of long-term Treasury bonds in an attempt to lower long-term rates.

In the article, “The Efficacy of Large-Scale Asset Purchases at the Zero Lower Bound,” Taeyoung Doh, an economist at the Federal Reserve Bank of Kansas City, examines the central bank’s purchase of Treasury bonds and the efficacy of such purchases when nominal interest rates are near zero percent. The article appears in the second quarter edition of the Bank’s *Economic Review*.

By using a model known as the preferred-habitat theory, Doh finds evidence suggesting the Federal Reserve was able to lower long-term interest rates by reducing the supply of long-term bonds. Doh also finds that when arbitrage activities are disrupted and rates are already at the zero lower bound, large-scale asset purchases by the central bank may lower long-term rates more effectively than other policy options, such as a pledge to keep interest rates lower than otherwise justified.

The article is available on the Bank’s website at www.KansasCityFed.org.

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