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How Do Unconventional Monetary Policy Surprises Affect U.S. Stock Returns at the Zero Lower Bound?

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1. **What is the question of this paper?**

   When the monetary policy is stuck at the zero lower bound, instead of ineffective conventional monetary policy, Large-Scale Asset Purchases (LSAP) program is implemented. The main question of this paper is how the unconventional monetary policies affect the stock market.

2. **Why should we care about it?**

   In order to put downward pressure on longer-term yields, ease financial conditions, and effectively stimulate economic growth, the governments should use unconventional monetary policies it stuck at the zero lower bound. Consequently, we have to know what are the impacts of those unconventional monetary policies that affect the market.

3. **What is the answer?**

   (1) Easing change in monetary announcement surprises tends to lead to **an increase in stock returns**.

   (2) Monetary easing surprise **statistically and positively** impacts the stock returns.

   (3) An easing monetary surprise **positively stimulate** more stock returns for financially unconstrained firms than for financially constrained firms.

   (4) Easing in absolute monetary announcement surprises tends to increase in stock returns **volatility**.

   (5)

4. **How did you (or the author) get there?**

   The author uses regression model to characterize the impacts of those monetary policies surprises on stock returns.

Notations

$R_{i,t}$: Stock returns.
VIX: the Chicago Board Options Exchange Market Volatility Index of the implied volatility of S&P 500 options.

Example

Easing monetary shocks tend to lower daily S&P 500 stock returns, and contractionary monetary shocks tend to boost daily stock returns, and LSAP announcements signaled more pessimistic economic conditions to stock market participants.