

Asset Purchases Had Large International Effects](<http://research.stlouisfed.org/wp/2010/2010-018.pdf>) ." Federal Reserve Bank of St. Louis Working Paper 2010-018C, January 2011. [." Federal Reserve Bank of St. Louis Working Paper 2010-018C, January 2011. [[back to text](<https://www.stlouisfed.org#4##4>)]]

The Regional Economist offers insights on regional, national and international issues. Views expressed are not necessarily those of the St. Louis Fed or Federal Reserve System.

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- **June 30, 2011.** Opening Remarks. "[QE2: An Assessment](#)," ([bullard_qe_conference_june_30_2011_finalpdf](#)) given at the *Quantitative Easing (QE) Conference*, St. Louis. [Press Release](#) | [Related news articles](#).

Quantitative Easing (QE) Conference

June 30, 2011, at the Federal Reserve Bank of St. Louis

The Federal Reserve Bank of St. Louis' Quantitative Easing (QE) Conference brought together leading academics, policymakers and representatives from international central banks to discuss the effectiveness of quantitative easing as a tool of monetary policy. The papers that were presented focus on the financial market effects of large-scale asset purchases on long-term bond yields, foreign exchange rates and asset prices.

Welcoming Remarks and Thoughts on QEJames Bullard[remarks](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_qe_conference_june_30_2011_final.pdf) || [press release](<https://www.stlouisfed.org/news-releases/2011/06/30/st-louis-feds-bullard-discusses-effectiveness-of-qe2>)

"Large-Scale Asset Purchases by the Federal Reserve: Did They Work?"

Gagnon et al. examine the effect of the December 2008 and March 2009 installments of the Federal Reserve's Large-Scale Asset Purchase (LSAP) programs. The LSAP could reduce the yields on long-term bonds in a combination of ways, including a reduction in the term premium and the pre-payment premium and an improvement in how these markets function. Gagnon et al. examine the effect of the December 2008 and March 2009 installments of the Federal Reserve's Large-Scale Asset Purchase (LSAP) programs. The LSAP could reduce the yields on long-term bonds in a combination of ways, including a reduction in the term premium and the pre-payment premium and an improvement in how these markets function. Presenter: Matthew Raskin Coauthors: Joseph Gagnon, Julie Remache, Brian Sack Discussants: Jim Hamilton, Kevin Hoover

[summary](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/summary_gagnon.pdf) ||

[research paper](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/gagon_paper.pdf)

"The Large-Scale Asset Purchases Had Large International Effects"

The author divides the important LSAP events into five "buy" events that discussed or announced future purchases of assets and three "sell" events that discussed or announced delays or reductions in future purchases of assets. The author divides the important LSAP events into five "buy" events that discussed or announced future purchases of assets and three "sell" events that discussed or announced delays or reductions in future purchases of assets. Presenter: Christopher J. Neely Discussants: Kenneth Kuttner, Owen Humpage

[summary](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/summary_neely.pdf) ||

[research paper](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/gagon_paper.pdf)

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"The Effectiveness of Alternative Monetary Policy Tools in a Zero Lower Bound Environment"

Hamilton and Wu estimate the effects of quantitative easing on the term structure: They use a model based on Vayanos and Vila's and initially estimate this model using monthly data for the period January 1990 through July 2007, the pre-financial crisis period. Hamilton and Wu estimate the effects of quantitative easing on the term structure: They use a model based on Vayanos and Vila's and initially estimate this model using monthly data for the period January 1990 through July 2007, the pre-financial crisis period. Presenter: Cynthia Wu Coauthor: James Hamilton Discussants: Taeyoung Doh, Dan Thornton

[summary](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/summary_hamilton_wu.pdf) ||

[research paper](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/hamilton_wu_paper.pdf)

"The Financial Market Impact of Quantitative Easing"

Based on analysis of the reaction of financial market prices and econometric estimates, this paper attempts to assess the impact of the Bank's QE policy on asset prices. Based on analysis of the reaction of financial market prices and econometric estimates, this paper attempts to assess the impact of the Bank's QE policy on asset prices. Presenter: Michael Joyce Coauthors: Ana Lasasoa, Ibrahim Stevens, Matthew Tong Discussants: Ed Nelson, Bruce Mizrach

[research paper](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/joyce_paper.pdf) (includes summary)(includes summary)

"Flow and Stock Effects of Large-Scale Treasury Purchases"

The authors distinguish between two types of impact that the LSAP program might have had—flow effects and stock effects. The authors distinguish between two types of impact that the LSAP program might have had—flow effects and stock effects. Presenter: Thomas B. King Coauthor: Stefania D’Amico Discussants: Michael Fleming, Chris Lamoureux

[summary](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/summary_king.pdf) ||

[research paper](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/press-releases/2011-06-30/damico_king_paper.pdf)

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St. Louis Fed's Bullard Discusses Effectiveness of QE2

ST. LOUIS – Federal Reserve Bank of St. Louis President James Bullard delivered remarks titled ["QE2: An Assessment"](https://www.stlouisfed.org/-/media/project/frbstl/stlouisfed/files/pdfs/bullard/remarks/bullard_qe_conference_june_30_2011_final.pdf) at the [St. Louis Fed’s Quantitative Easing (QE) Conference](<https://www.stlouisfed.org/news-releases/2011/06/30/quantitative-easing-qe-conference>) on Thursday, on Thursday.

During his presentation, Bullard discussed the use of balance sheet policy (or quantitative easing) to conduct stabilization policy once short-term

nominal interest rates are near zero. “The purchase and sale of liquid assets, such as Treasury securities, is very similar to ordinary monetary policy, except that a particular nominal interest rate target is not set,” he said.

Bullard focused mostly on the Fed’s second round of quantitative easing (which is commonly referred to as “QE2”), analyzing the motivation for and effectiveness of this policy action. Overall, Bullard said that QE2 was classic monetary policy easing. “This experience shows that monetary policy can be eased aggressively even when the policy rate is near zero,” he said.

Balance Sheet Policy

When short-term nominal interest rates are near zero, Bullard said, “asset purchases at longer maturities can substitute for ordinary monetary policy.” These purchases put downward pressure on nominal interest rates further out the yield curve and upward pressure on expected inflation. Thus, expanding the balance sheet puts downward pressure on real interest rates.

With the policy rate near zero since December 2008, the FOMC has voted to pursue a balance sheet policy twice. The first quantitative easing program—announced in late November 2008 and expanded in March 2009—consisted of more than \$1.7 trillion in purchases of agency debt, agency mortgage-backed securities, and long-term Treasury debt. The second quantitative easing program—announced in November 2010—included \$600 billion in purchases of longer-term Treasury debt.

“Balance sheet policy, like all monetary policy, should be conducted in a state-contingent way,” Bullard added. (In other words, policy should be adjusted based on the state of the economy.)

QE2: Motivation

Regarding the motivation for QE2, Bullard highlighted the disinflation trend that developed during 2010 and the slower pace of recovery during the summer of 2010. “These developments left the U.S. at risk of a Japanese-style outcome,” he said. The “Japanese experience with mild deflation and a near-zero nominal interest rate has been poor.”

In 2010, U.S. monetary policy included a near-zero policy rate, a large balance sheet, and “extended period” language for the near-zero policy rate. Lengthening the “extended period” in response to the economic developments could potentially be counter-productive and send the U.S. to a Japanese-style outcome. In order to avoid that, the FOMC voted to pursue QE2.

Bullard said that macroeconomists and policymakers are generally very fragmented on the issues raised by Benhabib, Schmitt-Grohe, and Uribe. ¹

QE2: Was It Effective?

Markets began pricing in additional FOMC action after Chairman Ben Bernanke’s Jackson Hole speech in late August 2010. Although the FOMC made the decision to purchase additional assets in November 2010, “most effects were already priced into financial markets at that point,” Bullard said.

“The financial market effects of QE2 looked the same as if the FOMC had reduced the policy rate substantially,” Bullard said. “In particular, real interest rates declined, inflation expectations rose, the dollar depreciated, and equity prices rose. These are the ‘classic’ financial market effects one might observe when the Fed eases monetary policy in ordinary times.”

Although the financial market effects were priced in ahead of the November decision, Bullard said that the effects of QE2 on the real economy would be expected to lag by six to 12 months. “Real effects are difficult to disentangle because other shocks hit the economy in the meantime,” he said, adding this seems to have happened during the first half of 2011. Disentangling the real effects is a standard problem in evaluating monetary policy, he noted.

“QE2 has shown that the Fed can conduct an effective monetary stabilization policy even when policy rates are near zero,” Bullard concluded.

¹ Editor’s Note: For more discussion, see Bullard’s paper published last year, “Seven Faces of ‘The Peril.’”