Speaker: **Michael Bauer, Hamburg** (Host: Dietmar Fehr)

Date: Monday, 16.05.2022

Perceptions about Monetary Policy

(with Carolin Pflueger and Adi Sunderam)

Abstract:

We estimate time-varying perceptions about the Fed's monetary policy rule from cross-sectional survey data and document systematic shifts in the perceived rule that are relevant for both monetary policy and asset pricing. First, the perceived reaction coefficient to the output gap varies over the business cycle, consistent with a cycle of quick rate cuts but gradual tightenings. Second, this variation in the perceived rule explains changes in the sensitivity of interest rates to macroeconomic announcements. Third, high-frequency monetary policy surprises lead to updates in beliefs about the policy rule that depend on the state of the business cycle and are consistent with the predictions of rational learning. Fourth, when monetary policy is perceived to be more responsive to real activity, risk premia on long-term Treasury bonds are low, consistent with standard asset pricing logic. Our findings can explain several empirical puzzles, such as systematic forecast errors about short-term interest rates and the decoupling of long-term rates during tightening cycles.