



UNIVERSITÀ DEGLI STUDI DI SALERNO

Dipartimento di Scienze Economiche e Statistiche

**DOTTORATO DI RICERCA
IN
ECONOMIA E POLITICHE DEI MERCATI E DELLE IMPRESE
XXXI CICLO**

**Abstract:
Monetary Policy
and
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Abstract

Economists have long recognized that adverse shocks to the financial sector can have significant effects on the real economy. The chance that financial instability will lead to macroeconomic instability is often termed “systemic risk” and the bankruptcy of Lehman Brothers and the global crisis in the last decades represent near evidence. Historically, monetary authorities used to respond to global crisis by cutting interest rates to lower levels. However, when the short-term nominal interest rate reaches the zero lower bound, monetary policy loses the power to cut the interest rate to counterbalance the negative effect of financial crisis and to control the inflation rate in the economy. Motivated by the events of the financial crisis in 2008, I study the effect of financial instability on the economy and the influence of the Central Bank’s unconventional monetary policy on market micro-structure. This work is divided in two main parts.

In the first chapter, I investigate the effects of a financial instability shock on consumption and business expectations using the “Announcements” of the European Central Bank in favor of stability as source of exogenous variation. Using quarterly data on the European countries, I show that a financial instability shock depresses the aggregate expectations on investment while the effects are mixed for aggregate consumption confidence. These results are robust to different identification schemes and several estimation methodologies. Finally, I estimate an impulse response function for a financial instability shock on consumption and investment confidence using local projection on a 20 period horizon.

The second chapter aims at assessing the impact of the unconventional monetary policy undertaken by the European Central Bank (ECB) on European corporate bond prices and their liquidity. Using a difference-in-difference estimation technique, I find that the Corporate Sector Purchase Programme (CSPP) has significantly reduced both the yield and bid-ask spread of the purchased bonds. I also investigate whether the average treatment effect has

changed over time during the implementation of the policy: the effect of the program on yield and prices has marginally abated, while the positive effect on liquidity is still present approximately nine months after the policy inception.