



Research Working Papers

How Optimal Was U.S. Monetary Policy at the Zero Lower Bound?

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Forward guidance and large-scale asset purchases effectively offset disinflationary effects from the zero lower bound.

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The zero lower bound on nominal interest rates can generate substantial downward pressure on longer-term inflation expectations. We use data on interest rate options and inflation compensation to estimate how the probability that the zero lower bound will bind in the future has weighed on inflation expectations in the United States. Over the 2008–19 period, we estimate that the zero lower bound imparted only a small drag on longer-term inflation expectations of around 10 basis points. We argue that the Federal Reserve's forward guidance and large-scale asset purchases largely offset the potential disinflationary effects of the zero lower bound, even prior to the formal adoption of an average inflation-targeting framework.

JEL classifications: E32, E52

Article Citations

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Related Research

- Mertens, Thomas M., and John C. Williams. 2021. "What to Expect from the Lower Bound on Interest Rates: Evidence from Derivatives Prices." *American Economic Review*, vol. 111, no. 8, pp. 2473–2505.
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