May Monetary Policy Affect to Long Run Expectation of Non-Stationary Real Interest Rate

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Summary

1. Theoratically
   - The paper introduces an augmented non-stationary test of real interest rate within a cointegrated VAR mdoel of interest rate, inflation and output gap reflecting the New Keynesian frame work
   - shows an interest rate shock trend including monetary policy shock(INTTREND) may be extracted from an non-stationary real interest rate using B-N decomposition
   - proves the existence of INTTREND in the real interest rate
   - shows that a long run effect of monetary policy shock to the real interest rate may be estimated consistently.
2. Empircally
   - it shows that there is stochastical trend in the real interest rate
   - observes that (i) 1% increase of federal fund rate may approximately induce 0.4% increase of the real interest rate's long run expectation(RELEX),
   - (ii) relatively higher RELEX after 2007, that may explain why the US economy has not rapidly recovered.

Empirical Questions

1. Johansen co-integration coefficient vs Engle-Granger OLS estimator
   - two estimated cointegration errors seem to have different features
   - so isn't the choice too arbitrary?
2. RELEX
   - a long run conditional expectation of real intererst rate
   - non-stationary part from the real interest rate
   - stochastic trend of real interest rate $=>$ interpretation
   - cointegration component misspecifcation? robustness check beyond New Keynesian theory ex) exchange rate?
   - other than three component of INTTREND, INFTREND, OUTPUTTREND
3. RELEX moves differently from FFR or ex post real interest rate
   - residual effect? anything else than the nominal interest rate, real interest rate, inflation, and output gap
   - expectation may behave depending on the fomation of expectation such as the mean reversion?