Accepted Manuscript

Did Monetary Policy Matter? Narrative Evidence from the Classical Gold Standard

Jason Lennard

PII: S0014-4983(17)30034-7
DOI: 10.1016/j.eeh.2017.10.001
Reference: YEXEH 1233

To appear in: *Explorations in Economic History*

Received date: 16 March 2017
Revised date: 3 October 2017
Accepted date: 9 October 2017

Please cite this article as: Jason Lennard, Did Monetary Policy Matter? Narrative Evidence from the Classical Gold Standard, *Explorations in Economic History* (2017), doi: 10.1016/j.eeh.2017.10.001

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting proof before it is published in its final form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

ACCEPTED MANUSCRIPT

Did Monetary Policy Matter? Narrative Evidence from the Classical Gold Standard

Jason Lennard[a*]

[a]Department of Economic History, School of Economics and Management, P.O. Box 7083, SE-220 07 Lund, Sweden

Abstract

This paper investigates the causal effects of monetary policy on the British economy during the classical gold standard. Based on the narrative identification approach, I find that following a one percentage point monetary tightening, unemployment rose by 0.9 percentage points, while inflation fell by 3.1 percentage points. In addition, monetary policy shocks accounted for a third of macroeconomic volatility.

Keywords: Business cycles; gold standard; monetary policy; narrative identification
JEL: E31, E32, E52, E58, N13

1 Introduction

A central question in macroeconomics is how monetary policy affects the economy (Nakamura and Steinsson, forthcoming). As the anchor of the "most widely used peg in modern financial history" (Mitchener and Weidenmier, 2015), there is a vast literature documenting how monetary policy affected the British economy during the classical gold standard (Sayers, 1976; Aldcroft and Fearon, 1972; Goodhart, 1972; Andréadès, 1966; Ford, 1962; Pesmazoglu, 1951; Tinbergen, 1950). At one end of the scale, Andréadès (1966, p. 316) notes that it had "very injurious effects", while at the other, Sayers (1976, p. 44) argues that it "did not matter".

Despite its historical importance, quantitative estimates are scarce, and those that exist present puzzling results. For example, Jeanne (1995) estimated a structural vector autoregression (SVAR) for the British economy in this period. The results show that a contractionary monetary shock lowered output proxies but *raised* prices - the so-called "price puzzle".

*Corresponding author. *E-mail address:* jason.lennard@ekh.lu.se. *Present address:* National Institute of Economic and Social Research, 2 Dean Trench Street, London, SW1P 3HE, United Kingdom.

ACCEPTED MANUSCRIPT

Download English Version:

https://daneshyari.com/en/article/7351873

Download Persian Version:

https://daneshyari.com/article/7351873

Daneshyari.com