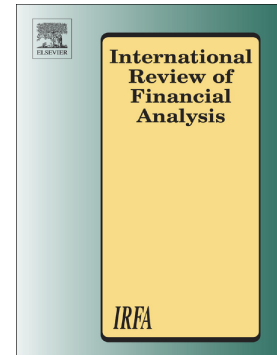


## Accepted Manuscript

Monetary policy shocks and financially constrained stock returns:  
The effects of the financial crisis

Nikolaos Balafas, Chris Florackis, Alexandros Kostakis



PII: S1057-5219(18)30357-0  
DOI: doi:[10.1016/j.irfa.2018.05.001](https://doi.org/10.1016/j.irfa.2018.05.001)  
Reference: FINANA 1218

To appear in: *International Review of Financial Analysis*

Received date: 25 October 2017  
Revised date: 18 April 2018  
Accepted date: 3 May 2018

Please cite this article as: Nikolaos Balafas, Chris Florackis, Alexandros Kostakis , Monetary policy shocks and financially constrained stock returns: The effects of the financial crisis. The address for the corresponding author was captured as affiliation for all authors. Please check if appropriate. *Finana*(2017), doi:[10.1016/j.irfa.2018.05.001](https://doi.org/10.1016/j.irfa.2018.05.001)

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.

# Monetary Policy Shocks and Financially Constrained Stock Returns: The Effects of the Financial Crisis

*Nikolaos Balafas<sup>1</sup>, Chris Florackis<sup>2</sup> and Alexandros Kostakis<sup>3</sup>*

*University of Liverpool and University of Manchester*

## Abstract

This study provides comprehensive evidence on the return response of financially constrained firms listed on London Stock Exchange (LSE) to UK monetary policy shocks extracted from the Bank of England's MPC meetings relative to expectations embedded in interest rate futures prices, during the period June 1999- December 2011. Using a large number of financial constraints proxies, we find no significant evidence that the most constrained firms' returns are more responsive to monetary policy shocks relative to the least constrained ones, as the credit channel of the monetary policy transmission mechanism would suggest. We also show that the inverse relationship between interest rate shocks and UK stock returns reversed its sign and became significantly positive during the recent financial crisis period. Our results show that the Bank of England can affect stock market valuations by modifying interest rates, but this impact is much stronger during periods of tight credit market conditions. Hence, apart from the credit conditions in the wider economy, central banks should also monitor the response of capital and money markets' participants to their policy decisions.

*JEL classification:* G12; G15.

*Keywords:* Monetary Policy Shocks, Financial Constraints, Credit Channel, Bank of England, London Stock Exchange.

---

<sup>1</sup> Department of Accounting and Finance, University of Liverpool, UK; Tel: +44 (0)1517953805; Email: [balafas@liv.ac.uk](mailto:balafas@liv.ac.uk).

<sup>2</sup> *Corresponding author.* Department of Accounting and Finance, University of Liverpool, UK; Tel: +44(0)1517+953807; Email: [c.florackis@liv.ac.uk](mailto:c.florackis@liv.ac.uk)

<sup>3</sup> Department of Accounting and Finance, Alliance Manchester Business School; Tel: +44 (0) 161 275 0434; Email: [alexandros.kostakis@manchester.ac.uk](mailto:alexandros.kostakis@manchester.ac.uk).

Download English Version:

<https://daneshyari.com/en/article/7355591>

Download Persian Version:

<https://daneshyari.com/article/7355591>

[Daneshyari.com](https://daneshyari.com)