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# Quantitative easing auctions of Treasury bonds\*

Zhaogang Song<sup>a</sup>, Haoxiang Zhu<sup>b,c,\*</sup>

<sup>a</sup>*Johns Hopkins University Carey Business School, 100 International Drive, Baltimore, MD 21202, USA.*

<sup>b</sup>*MIT Sloan School of Management, 100 Main Street E62-623, Cambridge, MA 02142, USA.*

<sup>c</sup>*National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138, USA*

## Abstract

The Federal Reserve uses (reverse) auctions to implement its purchases of Treasury bonds in quantitative easing (QE). To evaluate dealers' offers across multiple bonds, the Fed relies on its internal yield curve model, fitted to secondary market bond prices. From November 2010 to September 2011, a one standard deviation increase in the cheapness of a Treasury bond (how much the market price of the bond is below a model-implied value) increases the Fed's purchase quantity of that bond by 276 million and increases the auction costs on that bond by 2.6 cents per \$100 par value, controlling for standard covariates. Our results suggest that the Fed harvests gains from trades by purchasing undervalued bonds, but strategic dealers extract some profits because the Fed's relative values can be partly inferred from price data.

JEL classification: G01, G12, G14, G18

Keywords: Quantitative easing, Auction, Treasury bond, Federal Reserve

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\*Corresponding author. Tel: +1-617-253-2478. Fax: +1-617-258-6855. E-mail addresses: zsong8@jhu.edu (Z. Song), zhuh@mit.edu (H. Zhu).

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