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Does monetary policy matter in China? A narrative approach

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Summary

“This paper applies the narrative approach to Chinese monetary policy to solve two problems of policy measurement. The first problem arises because the PBC (the Chinese central bank) applies multiple instruments and none of them alone can adequately reflect changes in its monetary policy. The second one is the classical identification problem: the causation direction of the observed interaction between central bank actions and real activity needs to be identified. The PBC’s documents are used to infer the intentions behind policy movements. Three shocks are identified for the period 2000–2011 that are exogenous to real output. Estimates using these shocks and various robustness tests indicate that monetary policy has large and persistent impact on output in China.”

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