Financial Market Stability and Japan's Quantitative Monetary Easing Policy

Kunihiro Hanabusa *

Graduate School of Economics, Kobe University

Abstract

This paper examines the effects of the Quantitative Monetary Easing Policy (QMEP). Using an Exponential Generalized Autoregressive Conditional Heteroskedasticity (EGARCH) model, we present an empirical analysis of the volatilities of daily changes of the interest rates. We show that the expansion of liquidity lowers the volatilities, and hence stabilizes the financial market on average. However, individual target changes may not be equally effective.

JEL classification codes: E52

Keywords: Interest Rate;
Quantitative Monetary Easing Policy;
EGARCH

*Corresponding author. Address: Graduate School of Economics, Kobe University, 2-1, Rokkodai, Nada, Kobe 657-8501, Japan. E-mail: 048d203e@stu.kobe-u.ac.jp