Monetary Policy and the Yield Curve in Japan: VAR Approach with Sign Restrictions

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April 18, 2011

Abstract

This paper examines the relationship between monetary policy and the term structure of interest rate in Japan through the vector autoregression (VAR) with sign restrictions. In contrast to the U.S. case of Evans and Marshall(1998), we reveal that monetary policy affects unambiguously long-term interest rate. Although Evans and Marshall assert the responses of the term structure to monetary policy shocks are liquidity effects rather than expected inflation effects, we find that the relationship between monetary policy and the yield curve has changed depending on whether the sample includes the zero interest rate policy period or not.

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