Relationship between Monetary Policy and Inflation Expectations: Comparison among Japan, the United States, and the United Kingdom

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Abstract

We examines monetary policy, the formation of inflation expectations, and the relationship between monetary policy and inflation expectations. Inflation expectations are important in determining monetary policy. Although Bernanke (2007) asserts that inflation expectations greatly influence actual inflation and thus the central bank's ability to achieve price stability, there have been only a few attempts to study the effect of monetary policy on inflation expectations: for example, Berk (2002) and Ueda (2010) analyze qualitative survey data of households in Europe and Japan. We study the effect of monetary policy on inflation expectations with quantitative data provided by professional forecasters for Japan, the United States, and the United Kingdom. Our analysis focuses mainly on the Bank of Japan which has faced daunting challenges during the last two decades, as well as the U.S. Federal Reserve Board and the Bank of England, both of which implemented a series of unprecedented monetary policies. First, we identify the characteristics of inflation expectations and clarify the relationship between economic variables and inflation expectations. Next we examine the relationship between monetary policy and inflation expectations.

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