[The Effect of News Shocks and Monetary Policy](#)

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A VAR model estimated on U.S. data before and after 1980 documents systematic differences in the response of short- and long-term interest rates, corporate bond spreads and durable spending to news TFP shocks. Interest rates across the maturity spectrum broadly increase in the pre-1980s and broadly decline in the post-1980s. Corporate bond spreads decline significantly, and durable spending rises significantly in the post-1980 period while the opposite short-run response is observed in the pre-1980 period. Measuring expectations of future monetary policy rates conditional on a news shock suggests that the Federal Reserve has adopted a restrictive stance before the 1980s with the goal of retaining control over inflation while adopting a neutral/accommodative stance in the post-1980 period.