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"The Impact of Central Bank Stock Purchases:
Evidence from Discontinuities in Policy Rules"

The Impact of Central Bank Stock Purchases: Evidence from Discontinuities in Policy Rules*

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Abstract

We trace the impact of central bank stock purchases by exploiting the discontinuity in Bank of Japan's policy rule, which triggers purchases when the stock market index falls below a certain threshold. In normal times, a purchase of 0.01% of market capitalization (a typical size of each intervention) persistently increases the long-term interest rate by around 1.5 b.p. while leaving virtually no detectable impact on stock prices. After the introduction of the yield curve control, which pegs the long-term interest rate to 0%, interest rates stopped responding and stock prices rise by around 0.2% in response to the stock purchases. These results support a theory where *both* stock and bond markets are substantially inelastic.

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