The Past, Present, and Future of the "Fed Information Effect"

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The Fed Information Effect

The Past:

- Sims and Zha (1994)
- Christiano, Eichenbaum, and Evans (1996 REStat)
- Romer and Romer (2000 AER)
- Campbell, Evans, Fisher, and Justiniano (2012 BPEA)
- Nakamura and Steinsson (2018 QJE)
- Faust, Swanson, and Wright (2004 BEJMacro)

The Present:

- Bauer and Swanson (2023 AER)
- Jarocinski and Karadi (2020 AEJMacro)

The Future:

- Golez and Matthies (2025 JFE)?
- Gilchrist, Yang, and Zhao (2025)?
- Swanson, Wang, and Wu (2025)
- Jarocinski and Karadi (2025)
- Boehm and Kroner (2024 NBERWP)
- Alam (2023 SSRNWP)

The Past

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The "Fed Information Effect"

$$BCrev_t = \alpha + \theta\, mps_t + \varepsilon_t$$

- *t* indexes FOMC announcements
- $BCrev_t$ is one-month change in Blue Chip forecast around FOMC announcement
- mps_t is measure of FOMC announcement surprise in 30-minute window around announcement
- Standard macro models, VARs predict $\theta < 0$ (for GDP, inflation)
- But empirical work sometimes estimates $\theta > 0$

The "Fed Information Effect" Story

- The Fed is a better forecaster than the private sector
- When the Fed lowers interest rates, private sector infers that economy must be worse than they thought
- So private sector *lowers* rather than raises GDP forecast

- See: Romer and Romer (2000 AER), Campbell, Evans, Fisher, Justiniano (2012 BPEA), Nakamura and Steinsson (2018 QJE)
- Note: the implied macro information content of Fed interest rate announcements is ***huge***

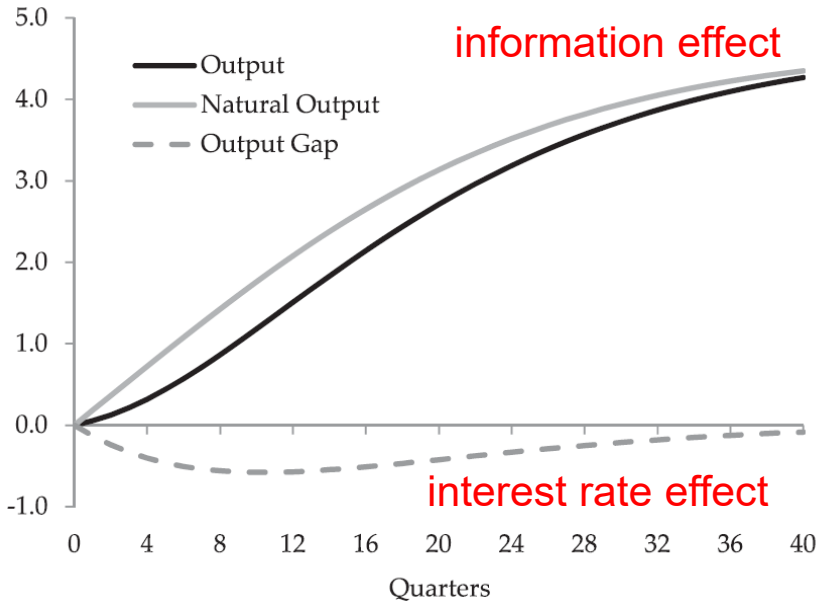
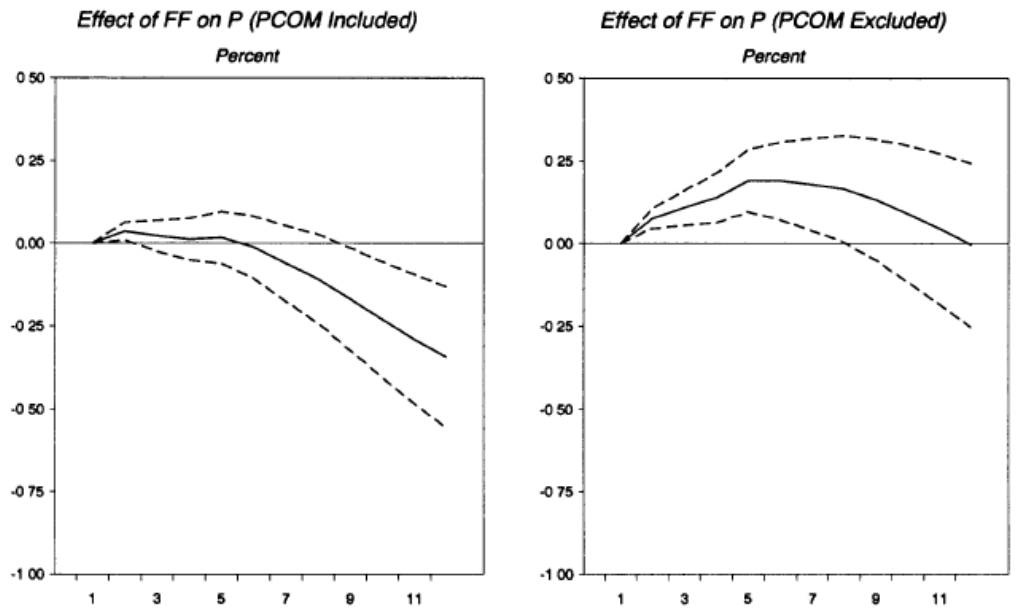


FIGURE VI

The "Price Puzzle"

- Eichenbaum (1992 EER) and Sims (1992 EER) estimated that a monetary policy tightening caused prices to *increase* rather than decrease in a VAR
- Sims and Zha (1994) and Christiano, Eichenbaum, and Evans (1996 REStat) argued an omitted variable (commodity prices) was driving the puzzle
- Their story: an increase in commodity (esp. oil) prices was causing *both* the Fed to raise interest rates *and* inflation to increase

FIGURE 4. — EFFECT OF POLICY SHOCKS ON PRICE LEVEL



RR, CEFJ, and NS

Romer-Romer (2000 AER):

- The Fed's interest rate decisions reveal information about *inflation* to the private sector

Campbell-Evans-Fisher-Justiniano (2012 BPEA):

- The Fed's interest rate decisions reveal information about *unemployment* to the private sector

Nakamura-Steinsson (2018 QJE):

- The Fed's interest rate decisions reveal information about *GDP* to the private sector

Faust, Swanson, and Wright (2004 BEJMacro)

Showed that private sector revises forecasts of upcoming data releases in response to major *macroeconomic* announcements:

TABLE 6: PRIVATE SECTOR FORECAST REVISIONS AND NON-MONETARY SURPRISES

$$\Delta \hat{y}_t = \phi_0 + \phi_1(x_t - \hat{x}_t) + \varepsilon_t$$

July 1978 – June 2003

Dependent Variable	Independent Variable	N	$(N \neq 0)$	Coefficient Estimates $\hat{\phi}_1$	(std. err.)	[p-value]
Retail Sales	Nonfm. Payrolls	213	(157)	.00045	(.00033)	[.098]
Indust. Prod.	Nonfm. Payrolls	213	(158)	.00104	(.00015)	[.000]**
Real GDP	Nonfm. Payrolls	43	(20)	.00181	(.00053)	[.001]**
Indust. Prod.	Retail Sales	107	(25)	.0131	(.0207)	[.275]
Real GDP	Retail Sales	98	(35)	.0866	(.0389)	[.006]**
Real GDP	Indust. Prod.	85	(40)	−.0305	(.2051)	[.584]
CPI	PPI	205	(55)	.0930	(.0154)	[.000]**
core CPI	core PPI	89	(8)	.0279	(.0144)	[.004]**
GDP Deflator	PPI	64	(7)	−.0141	(.0452)	[.646]
GDP Deflator	CPI	54	(16)	.5185	(.1971)	[.002]**

N denotes number of observations; $(N \neq 0)$ number of observations for which dependent variable is nonzero; heteroskedasticity-consistent standard errors are in parentheses; p-values are for a one-tailed test in the positive direction and are bootstrapped; * (**) denotes statistical signficance at the 5% (1%) level. See text for details.

Faust, Swanson, and Wright (2004 BEJMacro)

But private sector does ***not*** revise those forecasts in response to FOMC announcements:

TABLE 4: PRIVATE SECTOR FORECAST REVISIONS AND MONETARY POLICY SURPRISES

$$\Delta \hat{y}_t = \gamma_0 + \gamma_1 \text{MPsurprise}_t + \varepsilon_t$$

	Oct 1988 – June 2003					Feb 1994 – June 2003				
Macroecon. Statistic	N	$(N \neq 0)$	Coefficient Estimates $\hat{\gamma}_1$	(st err)	$[p\text{-val}]$	N	$(N \neq 0)$	Coefficient Estimates $\hat{\gamma}_1$	(st err)	$[p\text{-val}]$
Nonfm. Payr.	41	(11)	64.0	(40.9)	[.079]	25	(5)	−35.8	(25.7)	[.979]
Retail Sales	55	(34)	1.526	(.446)	[.001]**	28	(17)	1.114	(.612)	[.089]
PPI	45	(5)	−0.118	(.086)	[.910]†	26	(3)	−0.067	(.073)	[.817]†
core PPI	39	(1)	0.002	(.007)	[.363]†	26	(1)	0.002	(.010)	[.206]†
Indust. Prod.	59	(28)	0.543	(.463)	[.132]	30	(16)	1.310	(.376)	[.079]
CPI	58	(8)	0.007	(.032)	[.397]	29	(4)	0.028	(.049)	[.144]†
core CPI	44	(3)	0.002	(.015)	[.456]†	29	(2)	−0.008	(.015)	[.689]†
Real GDP	19	(12)	−0.562	(.966)	[.730]	10	(5)	−1.743	(1.081)	[.936]
GDP Deflator	18	(4)	−0.684	(.487)	[.910]†	9	(3)	−0.221	(.162)	[.992]†

N denotes number of observations; $(N \neq 0)$ number of observations for which dependent variable is nonzero; heteroskedasticity-consistent standard errors are in parentheses; p-values are for a one-tailed test in the positive direction and are bootstrapped; * (**) denotes statistical signficance at the 5% (1%) level; † denotes asymptotic rather than bootstrap p-value due to small number of nonzero observations of dependent variable. See text for details.

The Present

- Bauer and Swanson (2023 AER)
- Jarocinski and Karadi (2020 AEJMacro)

Bauer-Swanson (2023 AER): Background

- Fed forecast is very similar to Blue Chip, other high-quality forecasters
- Fed publishes its forecast 4 times per year in the Summary of Economic Projections (2 times per year in the Semiannual Report to Congress pre-2007)
- Fed's forecasts have not been particularly good:
  - e.g., Fed's inflation forecast in 2021-2022
- When financial press reports on FOMC decisions, articles emphasize interest rates, *not* revealed information about macro variables

Bauer-Swanson (2023 AER): Replication

Replicate RR, CEFJ, and NS findings, but:

- Using Romer-Romer sample and methods, *cannot* replicate CEFJ or NS finding
- Using CEFJ sample and methods, *cannot* replicate RR or NS finding
- Using NS sample and methods, *cannot* replicate RR or CEFJ finding

Summary:

- The “Fed Information Effect” literature is not unified
- Instead, it is fragmented, unable to confirm each other’s results, lacks robustness

Bauer-Swanson (2023 AER): Forecast Comparison

- Compare Fed Greenbook and Blue Chip forecasts, show they are very similar*
- Note: Fed forecasts are 8 times per year, Blue Chip is once per month, so timing does not line up
- When researchers claim the Fed forecast is better, it is almost always due to a timing issue: e.g., comparing Fed forecast to *most recent* Blue Chip forecast (which is stale)
- Bauer-Swanson compare Fed forecast to *closest* Blue Chip forecast; half the time Fed forecast comes first and half the time Blue Chip is first

Horizon (quarters)	RMSEs GB	BC	H_0: $GB = BC$
Panel A. Unemployment Rate			
0	0.18	0.17	0.41
1	0.34	0.34	0.83
2	0.54	0.53	0.84
3	0.73	0.73	0.95
0–3 average	0.42	0.42	0.92

*See also Faust, Swanson, and Wright (2004 BEJMacro), Gamber and Smith (2009 JMacro), Paul (2020 REStat), Hoesch, Rossi, and Sekhposian (2023 AEJMacro)

Bauer-Swanson (2023 AER): Forecaster Survey

There are only 52 forecasters in the Blue Chip survey

We tracked down the contact information for the chief economist for each forecasting team, asked them:

- Do you revise any of your macroeconomic forecasts (GDP, unemployment, or inflation) in response to the FOMC's *federal funds rate decision*? If yes, please briefly explain which forecasts you revise and which direction you revise those forecasts (i.e., do you revise them up or down if the decision is more hawkish/dovish than expected).
- Do you revise any of your macroeconomic forecasts in response to the *FOMC statement*? If yes, please briefly explain which forecasts you revise, and which direction you revise those forecasts (i.e., do you revise them up or down if the statement is more hawkish/dovish than expected).
- Do you revise any of your macroeconomic forecasts in response to the *dot plot* released by the FOMC in the Summary of Economic Projections (SEP)? If yes, please briefly explain which forecasts you revise and which direction you revise those forecasts (i.e., do you revise them up or down if the dot plot is more hawkish/dovish than expected)
- Do you revise any of your macroeconomic forecasts in response to *SEP forecasts of GDP, unemployment, and inflation* in the Summary of Economic Projections? If yes, please briefly explain which FOMC forecasts matter for you, which forecasts you revise, and which direction you revise those forecasts.

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Bauer-Swanson (2023 AER): Forecaster Survey

TABLE 5—BLUE CHIP FORECASTER RESPONSES TO FOMC ANNOUNCEMENTS: RESULTS FROM OUR SURVEY

	Response to hawkish surprise in:		
	Fed funds rate	FOMC statement	"dot plot"
Do not revise GDP forecast	13	16	14
Revise GDP forecast downward	18	15	18
Revise GDP forecast, but direction depends on other factors	5	5	4
Revise GDP forecast upward	0	0	0

- ***Zero*** forecasters say that they revise their forecast in the "Fed Information Effect" direction
- Of the forecasters who do revise their forecasts, vast majority revise in the standard direction, consistent with macro models, VARs

Bauer-Swanson (2023 AER): Forecaster Survey

	Response to FOMC's Summary of Economic Projections (SEP)
Do not revise GDP forecast	24
Revise GDP forecast towards SEP forecast of GDP if substantially different	4
Use SEP to help forecast fed funds rate, effect on GDP standard	3
Use SEP to help forecast fed funds rate, effect on GDP depends on other factors	1
Revise GDP, but revision depends on multiple factors	2

- If there was a Fed Information Effect, we ought to see it here

Bauer-Swanson (2023 AER): Forecaster Survey

Some quotes:

"I trust my outlook more than the Fed's. . . Their forecasting ability is pretty poor."

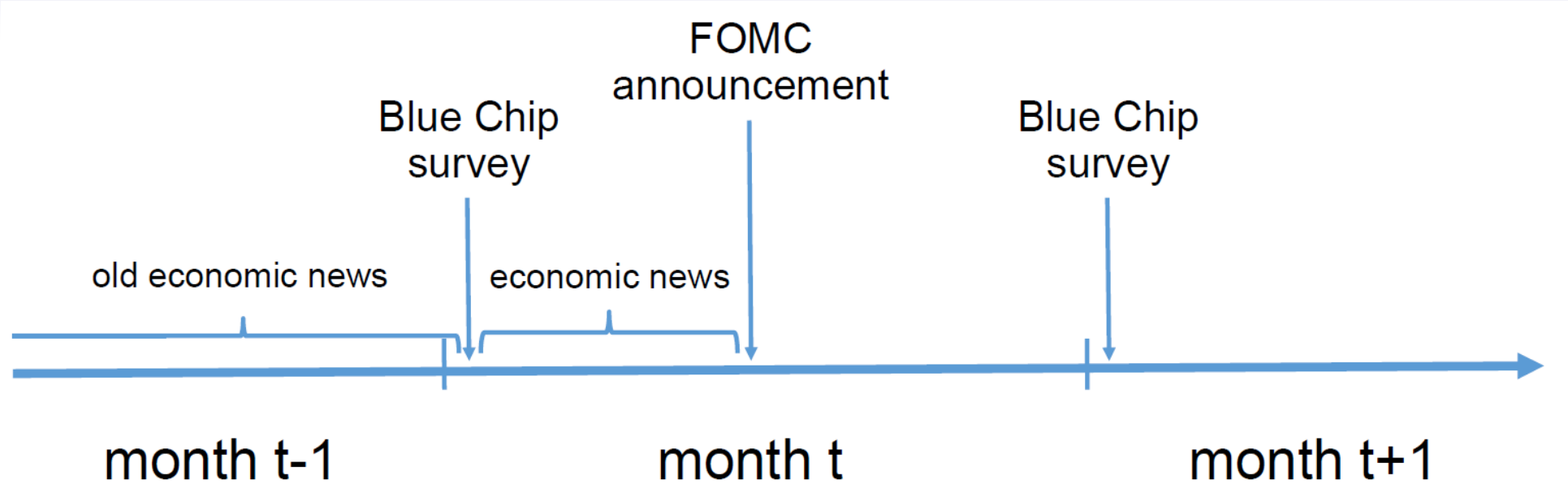
"My view is that the Fed does not have superior information. . . The FOMC forecast tends to be off by a lot."

"We tend to find that the Fed has no better information advantage over economists like myself… In fact, what we have found many times is Fed forecasts (per the SEP) tend to be somewhat stale."

"I would be responding to the change in the policy outlook, not to the possibility that the Fed 'knew' something that I did not."

"In the end, we are likely to get more information from speeches and press conferences than we are from the statement, the decision, or the dots. So by the time we get those things, it tends to be relatively 'old news', if you will."

Bauer-Swanson (2023 AER): Omitted Variables



- Between the Blue Chip Survey each month and FOMC announcement, significant economic news is often released
- Old economic news can also be relevant if some Blue Chip forecasters are sluggish in updating their forecast
- Economic news is an omitted variable in Fed Information Effect regressions

Bauer-Swanson (2023 AER): Omitted Variables

$$BCrev_t = \phi + \theta\, mps_t + \lambda' news_t + \eta_t.$$

Including the omitted news variable on the right-hand side:

- Greatly increases regression R^2, from about .01 to .42
- Reduces standard errors of θ estimates
- Increases statistical significance of θ
- ***Reverses the sign*** of θ to the standard direction, consistent with macro models and VARs

Summary: Including omitted economic and financial news variables eliminates the "Fed Information Effect" puzzle

Jarocinski-Karadi (2020 AEJMacro)

- Argue that there is a Fed Information Effect, but only ***sometimes***
- According to their Figure 1, standard interest rate channel of monetary policy usually dominates
- This story is very different from Romer-Romer, CEFJ, NS
- Bauer-Swanson evidence does not contradict this "occasional information shock" story

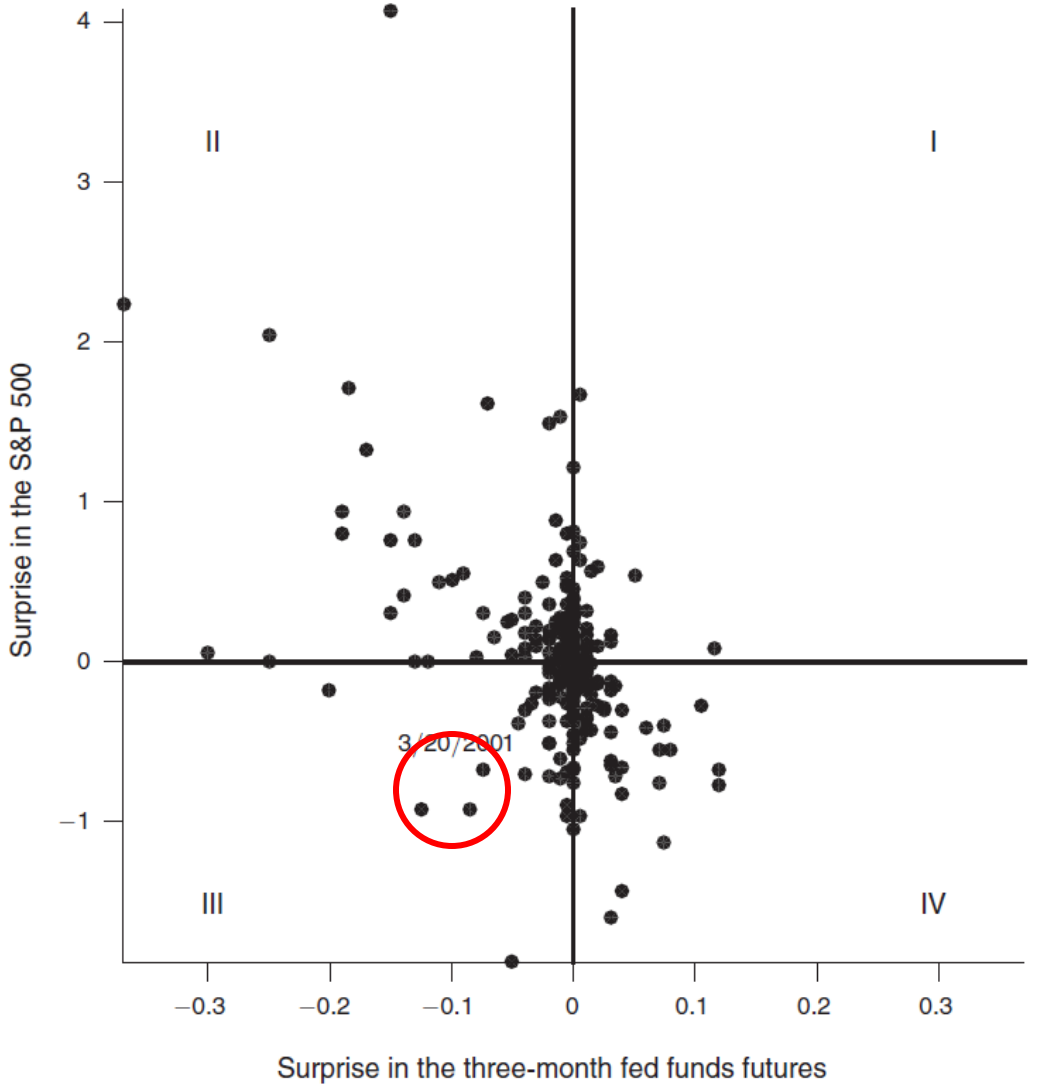


FIGURE 1. SCATTERPLOT OF INTEREST RATE AND STOCK PRICE SURPRISES

Jarocinski-Karadi (2020 AEJMacro): March 20, 2001

- Nevertheless, my experience at the Fed suggests the Fed does not have an informational advantage
- Instead, there is probably something else going on (e.g., on 3/20/2001):

STOCKS & BONDS

Shares Fall Hard as Fed Rate Cut Disappoints Inves...

Dow Jones Irdustrial Average

By MICHAEL BRICK

After weeks of anticipation, investors were disappointed yesterday after the Federal Reserve cut interest rates less than they had wanted.

Stocks fell sharply, with technology issues suffering big losses. The afternoon selloff partly reflected the misplaced bets of investors who had hoped the Fed would reduce short-term interest rates by three-quarters of a percentage point. Instead, the central bank cut its target for the federal funds rate by a widely anticipated half a point, to 5 percent.

The Nasdaq composite index fell 93.74 points, or 4.8 percent, to 1,857.44. The Nasdaq is down 24.8 percent so far this year. The Dow Jones industrial average fell 238.35 points, or 2.4 percent, to 9,720.76. It fell below 10,000 last week as investors' fears spread beyond the technology sector, and it has now declined 9.9 percent this year.

The Standard & Poor's 500-stock index fell 28.19 points, or 2.4 percent, to 1,142.62. It has declined 13.5 percent this year.

The Fed made its announcement around 2:15 p.m. Eastern time. Until then, the stock market was sluggish, showing modest gains. Immediately afterward, the Nasdaq dropped about seven-tenths of a percent, then jumped back up about 2 percent.

"The indecision is rampant," said Jeffrey D. Saut, chief investment strategist for Raymond James & Associates. "It's up, it's down, it's down, it's up."

After that, though, stocks began a rapid and steady descent. The losses carved deeply into technology stocks, which some investors had hoped would surge, at least temporarily, after the move by the Fed.

"Investors just don't know how they want to be positioned," said Brett Gallagher, a vice president of Julius Baer Investment Management, who manages $400 million in equity holdings for foundations and wealthy individuals. After some hasty adjustments, they seemed struck by a realization that "the next scheduled releases we're going to see are going to be first-quarter earnings and we don't expect those to be brilliant."

Intel fell $2.44, to $24.63; Cisco fell $1.75, to $19.06, and JDS Uniphase fell $3.13, to $21.50.

Treasury Yield Cu...

Yields of selected Tre... securities. Short-term ... ities are shown on a bond equivalent basis. Horizontal scale ratio scale.

Source: Bloomberg Financial Markets

Key Rates

Percent	Yesterday	Day Ago	Ye... Ag...
Prime rate	8.00	8.50	8...
Discount rate	4.50	5.00	5...
Federal funds	5.13	5.38	5...
3-month T-bills	4.34	4.37	5...
6-month T-bills	4.16	4.22	5...
10-yr T-nte	3.30	3.29	4...
10-yr T-note	4.75	4.81	6...
30-yr T-bond	5.26	5.29	5...
Telephone bd	7.67	7.70	8...
Municipal bds	5.27	5.27	6...

Sources: Salomon Smith Barney, Telerate, The Bond Buyer

their purchases in the energy se... and in the stocks of intrinsically ... clical companies, said Jon Bror... director of equities for North... Trust, the money management ... of the Northern Trust Company.

Alcoa rose 35 cents, to $36.28, ... International Paper gained $1.1... $37.36.

Treasury Prices Rise

By Bloomberg News

Treasury bond prices rose yes... day after the Federal Reserve l... ered interest rates to 5 percent ... signaled another rate cut could c... as early as next month — before ...

Hot & Cold

A look at stocks with large price percentage gains and losses

STOCK EX, SYMBOL	YESTERDAY CLOSE	CHANGE	YEAR TO DATE	COMMENT
Plantronics N PLT	$16.97	–$6.03 –26.2%	–63.9%	Maker of cellular-phone headsets says earnings will be 16 cents to 19 cents a share in its fourth quarter, analysts had expected 36 cents
Three-Five Systems N TFS	$12.38	–$3.26 –20.8%	–31.2%	Maker of liquid-crystal displays expects to break even in the first quarter, analysts had forecast a profit of 8 cents a share
Flextronics International NNM FLEX	$19.00	–$4.38 –18.7%	–33.3%	Several analysts lower their earnings estimates for the electronics manufacturing service provider
Solectron N SLR	$19.09	–$2.40 –11.2%	–43.7%	The contract manufacturer of electronics is cutting 8,200 jobs, or 10 percent of its workers, and will miss profit forecasts for the current quarter because demand is falling
Exfo Electro-Optical Engineering NNM EXFO	$25.25	+$2.00 +8.60%	–3.4%	Maker of gear for testing fiber optic equipment reports fiscal second-quarter profit, excluding costs, that tops analysts' estimates. The company cites higher-than-expected demand
Oracle NNM ORCL	$14.38	–$1.06 –6.88%	–50.5%	Software maker is cutting its work force by up to 2 percent, or 900 jobs, in an attempt to bolster its sagging profits

Compiled from staff reports, The Associated Press, Bloomberg News, Bridge News, Dow Jones, Reuters

Reckonings

PAUL KRUGMAN

Half a Loaf

It could have been the one-two punch that turned the world economy around. On Monday the Bank of Japan met to set monetary policy in the world's second-largest economy, amid hopes that last year's disastrous decision to raise interest rates would be decisively reversed. Yesterday the Federal Reserve's Open Market Committee met to set interest rates for the world's biggest economy, amid hopes that it would act decisively to stop the slide in America's economic growth.

Alas, both central banks pulled their punches. Not that they refused to act: the Fed cut interest rates half a percentage point, and the Bank of Japan announced what amounted to a humiliating reversal of policy. But in each case the measures taken were half-hearted — moves in the right direction, but almost certainly too weak to do the job. And since both central banks faced problems in which market psychology is key, in both cases half a loaf may be as bad as no loaf at all. For if the measures taken in the last two days fail — which they almost certainly will — the fact that each central bank tried to turn the economy around but failed will damage its credibility, and make it all the harder to engineer a recovery in the future.

Start with Japan. Last year the Bank of Japan somehow managed to convince itself that the right cure for an economy suffering persistent deflation was to raise interest rates. Now it has grudgingly conceded that deflationary monetary policy is, you

that much harder for any later effort to break the vicious cycle of deflationary psychology.

The situation in the United States is not nearly so grim. We don't have a long history of deflation in consumer prices. But we do have rapidly deflating stock prices, and equally rapidly deflating consumer and business confidence. The Bank of Japan needs to break a vicious circle of self-fulfilling expectations of defla-

Central banks do it partway.

tion; the Fed needs to break a vicious circle of self-fulfilling deflation of expec... play, the... problem...

The Bu... has a po... its dispo... remain ... room for...

But ye... tool half... that alm... enough t... statemer... contained... eral Res... developm... mean th... strongly...

Fed Disappoints Wall Street With Half-Point Cut in Rates

By Richard W. Stevenson

March 20, 2001

WASHINGTON, March 20 - The Federal Reserve cut interest rates today by half a percentage point, continuing its aggressive effort to resuscitate the faltering economy but disappointing investors who had hoped for more.

Stock prices fell sharply after the Fed's announcement. The Dow Jones industrial average and the broader Standard & Poor's 500-stock index both dropped more than 2 percent, while technology-heavy Nasdaq composite index lost more than 4 percent.

The Future

- Golez and Matthies (2025 JFE)?
- Gilchrist, Yang, and Zhao (2025)?
- Swanson, Wang, and Wu (2025)
- Jarocinski and Karadi (2025)
- Boehm and Kroner (2024 NBERWP)
- Alam (2023 SSRNWP)

Dividend Strips

- Golez and Matthies (2025 JFE) and Gilchrist, Yang, and Zhao (2025):
  - although stocks respond very negatively to FOMC announcements
  - near-term dividend STRIPs respond *positively*

Table 1: High-Frequency Strip Price Responses to mpsf2

	(1) SP500hf	(2) strip60	(3) strip90	(4) strip120	(5) strip180	(6) strip270	(7) strip360	(8) stripf4
mpsf2	-6.13***	97.36***	63.43***	45.44***	30.25***	13.47**	10.67**	25.51***
	(0.79)	(36.14)	(18.37)	(13.24)	(10.40)	(5.31)	(4.78)	(7.40)

- Note: this is ***not*** the Jarocinski-Karadi (2020) story; it is ***always*** present
- Also: the effect is driven by the nearest-maturity STRIP (60 days!)
- Moreover, dividend *futures* do not show this effect

Dividend Futures vs. STRIPs

Dividend futures:

- Settle based on cumulative actual dividends paid by index (S&P 500) constituents from issue date to maturity

Dividend STRIPs:

- Synthetic security constructed by going long spot S&P 500 and short 60-day-ahead S&P 500 index future
- This synthetic security earns the dividends paid over the next 60 days, but has no risk from index fluctuations

However, Boguth, Carlson, Fisher, Simutin (2023 RF):

- Going long-short two very similar securities greatly amplifies (levers) the idiosyncratic noise/frictions in each

This idiosyncratic noise/friction seems to be related to short-term int. rates

Swanson, Wang, and Wu (2025)

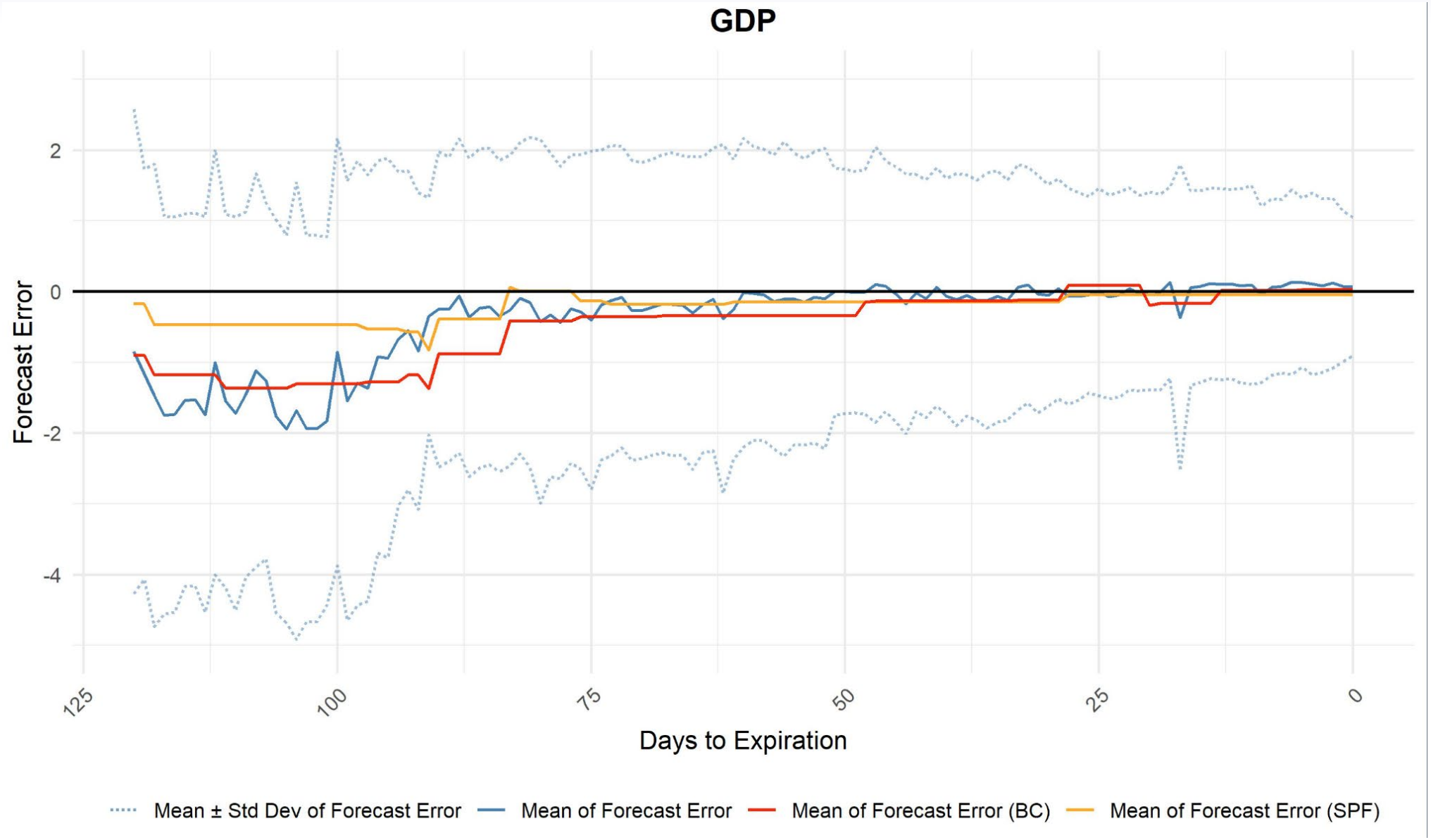
Kalshi is a U.S. CFTC-licensed prediction market where participants can buy and sell binary futures contracts based on very wide range of events (including major macro data releases):

- e.g., “Will the October unemployment rate release be 4.3% or more?”, “4.4% or more?”, “4.5% or more?”, etc.

In contrast to other prediction markets, CFTC license makes Kalshi much larger and more liquid:

- participants can take positions up to $7 million in each contract
- investment banks can and do act as market makers
- U.S. investors can participate (unlike Polymarket)
- contracts trade every day, track Blue Chip, SPF closely
- caveat: data only available since mid-2021 (short sample)

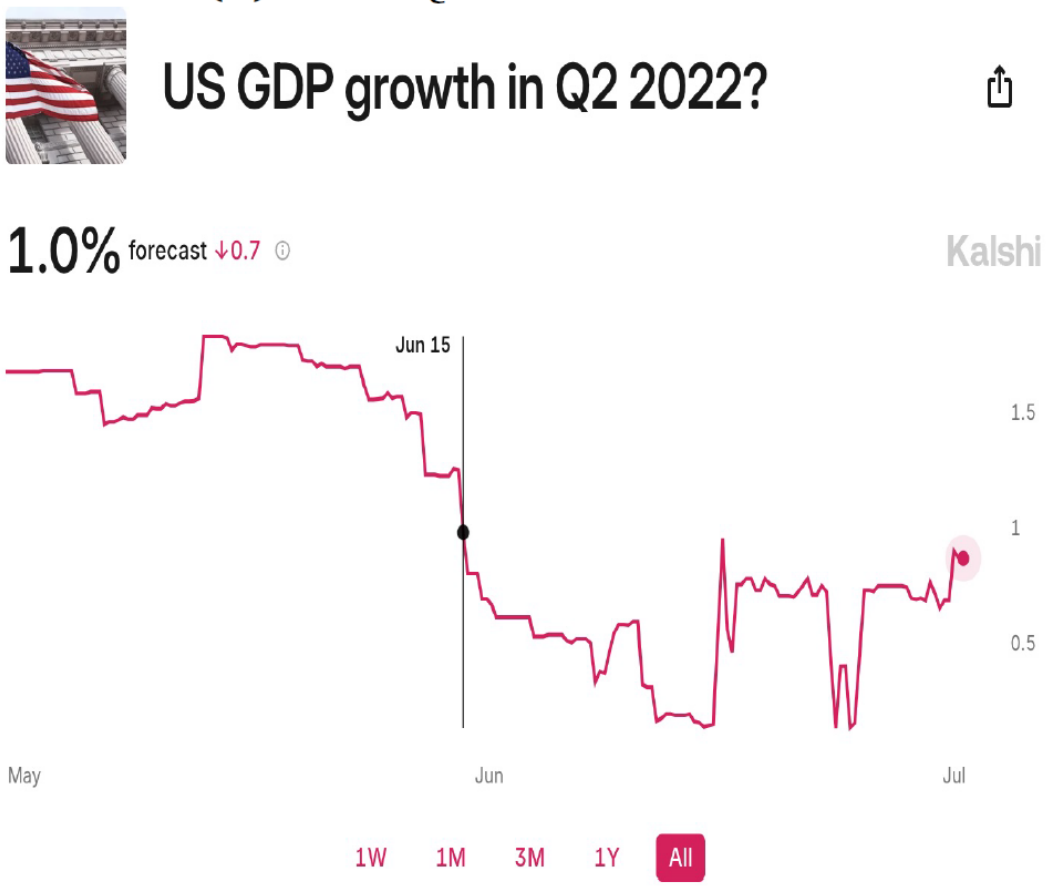
Swanson, Wang, and Wu (2025)



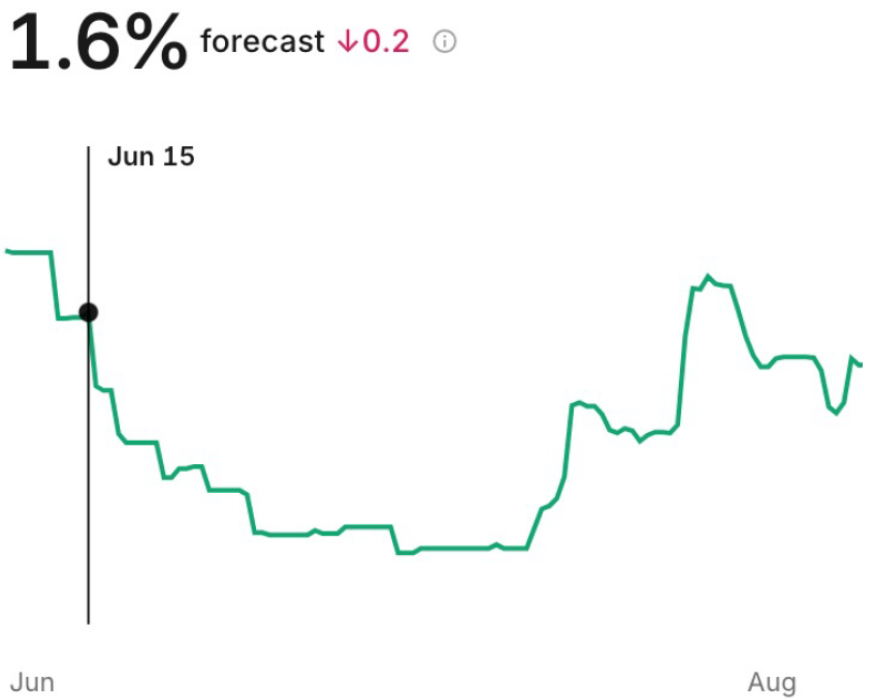
Swanson, Wang, and Wu (2025)

Figure 1. Kalshi GDP Contract Prices around June 15, 2022

(A) Kalshi Q2 2022 US GDP Growth



(B) Kalshi Q3 2022 US GDP Growth



Swanson, Wang, and Wu (2025)

On days of FOMC announcements and Fed Chair speeches, how do Kalshi macro forecasts respond?

		Daily Changes in Macroeconomic Expectations					
		CPI		Unemployment		GDP	Payrolls
Daily Interest Rate Delta Contract Horizon	x Policy Event	Front	Longer-term	Front	Longer-term	Front	Longer-term
Near	FOMC Announcement	0.108	**−0.833****	0.087	−2.902	1.706	**−0.245***
		(0.167)	(0.346)	(0.386)	(1.821)	(2.664)	(0.131)
	Fed Chair Speech	−0.917	0.392	0.539	2.514	**−14.219*****	1.620
		(1.011)	(0.265)	(0.813)	(3.002)	(3.730)	(1.988)
Far	FOMC Announcement	0.004	**−0.338***	0.136	−1.996	−0.118	**−0.261****
		(0.109)	(0.177)	(0.153)	(1.325)	(0.991)	(0.106)
	Fed Chair Speech	0.248	**−0.275****	−0.108	−1.144	0.681	**−0.412****
		(0.467)	(0.125)	(0.304)	(1.455)	(1.620)	(0.160)

CPI, GDP, Nonfarm Payrolls forecasts all respond *negatively* to tightening surprises—i.e., no evidence of a strong, systematic "information effect"

Jarocinski-Karadi (2025)

Jarocinski and Karadi (2025) decompose FOMC announcement surprises into:

- "pure" monetary policy shock
- "Fed response to news" shock (as in Bauer-Swanson 2023AER, NBERMA)
- "Fed information" shock (that moves stock prices in puzzling direction)

They find evidence for all three components in the data, and GDP tends to rise after a positive "information" shock

Note: As in their previous work, the "information shock" is only *occasional*

Boehm-Kroner (2024 NBERWP)

Boehm and Kroner:

- control for essentially all yield curve movements around FOMC announcements
- find that residual stock price movements are correlated with many other market responses (exchange rates, VIX, foreign stock prices)
- acts like a “risk appetite shock”
- Boehm-Kroner call it the “Fed non-yield shock”

I suspect that the Boehm-Kroner “non-yield shock” and Jarocinski-Karadi “information shock” are essentially the same

Open question: what’s driving this shock exactly?

Alam (2023 SSRNWP)

Alam finds that FOMC announcement days that are immediately preceded by a major macroeconomic data release are responsible for:

- all of the pre-FOMC announcement drift (Lucca-Moench 2015 JF)
- all of the FOMC-related long-term interest rate decline (Hillenbrand 2025 RFS)
- some other financial market response puzzles

Open questions: What is it about the interaction of macro announcements and FOMC decisions that causes markets to react so strongly?

Is it related to Jarocinski-Karadi and Boehm-Kroner?

Conclusions

In the present:

- It's common for authors who find a puzzling IRF to attribute it to a "Fed Information Effect"
- But there is overwhelming evidence against a large, constant "Fed Information Effect" story

In the past:

- Sims and Zha (1994) and Christiano, Eichenbaum, and Evans (1996) were faced with a similar puzzle and thought hard about what might be driving it

In the future:

- The "Fed Information Effect" is probably just a "risk appetite"/"non-yield" shock as in Boehm and Kroner (2024)
- This shock happens only occasionally (as in Jarocinski-Karadi, 2020, 2025)