Quantitative and Qualitative Monetary Easing with Yield Curve Control *

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Abstract

A central bank that actively uses its balance sheet in an unconventional way can, in theory, perfectly control inflation without having to rely on the Taylor rule, money demand, or fiscal policy. This paper shows that this is possible with two policies. On the liabilities side, the central bank announces interest rate targets for different maturities. On the asset side, it chooses its portfolio's exposure to different market risks. This matches the policy framework followed by the Bank of Japan since September of 2016. Moreover, the theoretical result is useful to understand how quantitative easing and yield curve targeting may affect inflation.

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