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Publication Date:
Sunday, 01 August 2010

In this paper we explore the contribution that asset prices appear to make to fluctuations in the economy and to inflation, and hence to monetary policy, using a large international panel for the 1970–2008 period. We show that house prices are important in the determination of economic activity, and therefore to monetary policy, but that stock market prices, while offering information in many periods, form a rather weaker and less well determined linkage. Moreover, the effects are asymmetric over the course of the economic cycle. Using an augmented Taylor rule, we go on to show that monetary policy has not reacted much to asset prices but that longrun interest rates are clearly affected by house price inflation. Relationships tend to be weaker in recent years, probably as a result of greater stability in output growth

and inflation. Nevertheless, our results suggest that central banks would do well to consider asset prices in deciding monetary policy.