ABSTRACT FORM

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Paper title	May Monetary Policy Affect Long Run Expectations of Non-Stationary Real Interest Rates ?
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Abstract	In this paper, we analyze whether the monetary policy may affect the long run expectation of non-stationary real interest rate. That is conducted through Beveridge-Nelson trend decomposition within a co-integrated vector autoregressive model based upon New Keynesian frame work. For this, we suggest an augmented test of conventional co-integration test on the non-stationarity of real interest rate, which checks whether the co-integration coefficient of inflation is one and the output gap does affect the co-integration equilibrium of nominal interest rate. Further we suggest to decompose the long run expectation of non-stationary real interest rate as the three trends of interest rate shock (including monetary shock), inflation shock and output gap shock. According to the empirical analyses using the monthly US data after Korean war, we find that there is an interest rate shock trend in the long run expectation of non-stationary real interest rate and the impulse of federal fund target rate induces significant response of the interest rate shock trend. However the interest rate shock trend has very small portion in the long run expectation of non-stationary real interest rate which may explain why the monetary policy was not so effective to recover the economy after global financial crisis.