A STUDY OF THE IMPACT OF TWO U.S. QUANTITATIVE EASING PROGRAMS ON MAJOR FINANCIAL MARKETS

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Abstract: *The purpose of this study is to explore the relationship between two United States Quantitative Easing programs (Quantitative Easing one and two) and the existence of positive abnormal returns among eight major financial markets which are the eight variables in this study: the Morgan Stanley Capital International (MSCI) World Index, the Standard and Poor (S&P) 500, the JP Morgan Emerging Markets Bond Index (EMBI) Spread, the Financial Times and the London Stock Exchange (FTSE) 100, Deutscher Aktien Index (DAX), Stock Exchange of Thailand (SET), 10 Year Treasury Yield, and Gold. This research aims to test the purpose of market efficiency, only focusing on the Semi-Strong form hypothesis. The daily closing price data from each financial market was collected from the Bloomberg database during the periods running from 17 June 2008 to 2 December 2008 and 13 April 2011 to 28 September 2011 respectively. The Unit Root Test by Augmented Dickey Fuller is applied. It is carried out by the EViews 5.1 program. This research follows the Correlational Research Methodology, which includes the Event Study Methodology and the use of Microsoft Excel. Statistically significant Total Standardized Abnormal Returns, Cumulative Total Standardized Abnormal Returns, Z-Statistic, and P-Value determination were used to present the test results. All eight variables became stationary data at first difference level. The Event Study Methodology interpreted the Total Standardized Abnormal Returns (TSARs) as not equal to zero, which means that both US Quantitative Easing programs had an effect on major financial markets. However, Quantitative Easing two had an excessive leakage. The Cumulative Total Standardized Abnormal Returns (CTSARs) is significant.*

Keywords: *Quantitative Easing Program, Financial Markets, Monetary Policy, Event Study Methodology, Stationary Test.*

1. Introduction

Quantitative Easing programs are programs intended to stimulate a country's economy as part of its monetary policy. They have become important monetary policy tools for many central banks such as, for example, the Bank of England or the Federal Reserve. The latter uses it to raise the money supply within the U.S. economy without changing the Fed Funds Rate in the market. U.S. Quantitative Easing programs have a greater impact on many financial markets than any other because the United States is a major driver of the world's economy. They are likely to affect interest rates and asset prices in many countries. Another name for the Quantitative Easing Program in the United States is "Large Scale Asset Purchase."

This article focuses on two recent U.S. Quantitative Easing programs and how they affected some major financial markets (in this study also referred to as 'samples'), namely, The Morgan Stanley Capital International (MSCI) World Index, the Standard and Poor (S&P) 500, the JP Morgan Emerging Markets Bond Index (EMBI) Spread, the Financial Times and the London Stock Exchange (FTSE) 100, Deutscher Aktien IndeX (DAX), Stock Exchange of Thailand (SET), and the 10 Year Treasury Yield, and Gold.

This research attempts to determine whether any abnormal returns were generated in financial markets after the U.S. Quantitative Easing programs were implemented. Abnormal returns can be calculated by measuring the gap between expected and normal returns. Returns before and after the U.S. Quantitative Easing programs were implemented will be compared using the Event Study Methodology (MacKinlay 1997; McWilliams & Siegel, 1997). This methodology focuses on the reaction of financial security prices to special events. Using the Event Study Methodology has been common practice for more than 40 years. This is especially true of stock market movement analysis.

This research looks at the effects from the two Quantitative Easing programs separately

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