Monetary Policy in the Knowledge Economy

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Abstract

We contrast how monetary policy affects intangible relative to tangible investment. Using monetary policy surprises identified from movements in Fed Funds futures around FOMC announcements, we find that the stock prices of firms with more intangible assets react less to monetary policy shocks. We also study the response of investment in instrumental variable local projections on both aggregate and firm-level data. Consistent with the stock price results, firms with more intangible assets respond less to monetary policy, and intangible investment responds less compared to tangible investment. Intangible assets attenuate the response to monetary policy most among young firms with much cash, and among firms with a high gap between intangible and tangible depreciation rates, consistent with intangible capital muting the credit and the user cost of capital channels of monetary policy.

Keywords. Intangible Capital, Investment, Monetary Policy, Stock Returns, Heterogeneity.

JEL classifications. E22, E52, G32

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