

Bernanke Vs. Taylor: A Post Mortem on Whether Monetary Policy Contributed to the Housing Boom and Bust

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Abstract

Our analysis is intended to shed light on the issue of whether monetary policy contributed to the recent housing boom and bust. We have estimated and analyzed a model that allows a comparison between actual policy and several alternative Taylor Rules. When the Taylor Rule path was computed using revised data and the GDP deflator, we found a notable impact on key housing market variables, supporting Taylor's critique of Fed policy. However the bulk of our evidence suggests that policy as it would have been conducted under our real-time Taylor Rules would not have had any significant impact on the housing market variables. This conclusion is robust with regard to the price index used as well as the relative weights used on the inflation and output gaps.