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An Empirical Investigation of Uncertainty and the Lumpy Investment Channel of Monetary Policy

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Abstract : Monetary policy could be less effective at stimulating investment during periods of elevated volatility than during normal times. In this paper, we argue that elevated volatility leads to a decrease in extensive margin investment incentive so that nominal stimulus generates less aggregate investment. To do this, we first empirically document that high volatility weakens firms' investment responses to monetary stimulus. Such effects depend on the lumpiness nature of the firm-level investment. The findings are that the channel exists for all of the physical investment, innovation investment, and organization investment.

Keywords : investment, irreversibility, volatility, uncertainty, firm heterogeneity, monetary policy
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