Faculti Summary
https://staging.faculti.net/has-globalization-changed-the-international-transmission-of-u-s-monetary-policy/

The study focuses on how globalization has impacted the international transmission of US monetary policy. It explores two key aspects: the role of the US dollar as a dominant global currency and the significant increase in trade and financial integration since the late 1980s and early 1990s until the Great Financial Crisis.

Key findings include:

1. **Monetary Policy Transmission**: The US dollar significantly influences global trade and financial activities, affecting countries that trade in dollars even if they do not directly engage with the US economy.

2. **Globalization Trends**: Trade and financial integration have risen sharply over the years, leading to anticipated changes in how US monetary policy impacts the global economy. After the financial crisis, however, indicators of trade and financial integration plateaued, potentially leading to reduced or stable effects on international transmission.

3. **Increased Spillovers**: The research highlights that the spillover effects of US monetary policy have increased over time, particularly regarding industrial production and global economic activity.

4. **Channel Investigation**: The study delves into whether trade or financial channels more significantly explain the observed time variations in these effects. Findings suggest that while both channels are crucial, the trade channel plays a more dominant role in accounting for time variations in policy impact.

5. **Policy Implications**: The implications of the research suggest that foreign central banks should consider the changes in spillover effects when designing their policies relative to the Federal Reserve. Conversely, the US Federal Reserve should also acknowledge the reverse spillover effects impacting the US economy when making monetary policy decisions.

Overall, the study highlights the evolving nature of international monetary policy transmission in the context of globalization and emphasizes the importance of both trade and financial channels in understanding this dynamic.