The researchers also found that an increase in the share of investors with a long-term horizon led to a fall in interest rates, which a government interested in increasing general economic welfare could exploit by tilting its issuance towards longer maturities.

## What happened?

The LSE research gave central banks a theoretical basis for why purchases of long-term bonds that reduced the supply of debt (i.e. quantitative easing) could reduce long-term interest rates. Central banks undertook massive purchases, with the Federal Reserve buying $1.8 trillion worth of bonds [redacted]

Senior officials, including then vice-chair of the Federal Reserve Janet Yellen and then chief economist at the Bank of England Spencer Dale, made references to this research. It was also used frequently by researchers at these central banks, who were tasked with assessing the impacts of the early stages of quantitative easing in order to inform the design and execution of later stages. The research was also extensively cited at a Bank of England conference in 2001.

The estimates of the impact of quantitative easing, found in the above-mentioned research by the central banks, were large. For example, the 10-year rate for the first phase was estimated to be 100 basis points (1 percentage point) lower than before the programme was put in place, both in the UK and in the US. Such lowering of the interest rate made it significantly more likely that companies and households would borrow money and engage in economic transactions that led to financial recovery and economic growth.

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