In response to the 2007 financial crisis and recession, the Federal Reserve System (the Fed) implemented conventional monetary policy by lowering the Federal funds rate in order to stimulate the economy. However, the Federal funds rate reached its zero-lower bound in November 2008, which meant that lowering the Federal funds rate was no longer an option, because it could not be lowered any further. As a result, the Fed began to implement unconventional monetary policy, by making large-scale asset purchases (LSAPs) usually referred to as quantitative easing (QE). This dissertation studies how monetary policy in the context of the move to unconventional monetary policy affects the behavior of the U.S. dollar vis-à-vis a number of important currencies. Three different perspectives concerning this policy move are offered.

The first essay examines how exchange rates are impacted by conventional and unconventional monetary policy using daily data. In addition, I test if there is any change in the volatility of exchange rates in the long run overall, pre and post November 2008. I employ a generalized autoregressive conditional heteroskedastic (GARCH) model to estimate the volatility of five exchange rates, namely the Australian dollar, the Canadian dollar, the Euro, the British pound, and the Japanese yen against the US dollar. Results show that interest rate spreads have significant impacts on exchange rate returns under conventional monetary policy regime, while the spreads have no impacts under
unconventional regime. With respect to the impact on volatility in the long run, overall there is no significant change pre and post November 2008 for four out of the five cases.

The second essay focuses on the impact of monetary policy on exchange rate volatility from a narrower perspective. The analysis zeros in on the immediate effects of policy announcements on the volatility of the US dollar in the conventional versus unconventional monetary policy period. The advantage of using intraday data is that it enables me to better isolate the response of exchange rate movements to monetary announcements and separate those from other possible shocks in the same day. Focusing on the 25 minutes around the announcements, I find that the monetary policy announcements significantly impact exchange rate volatility. Compared with the conventional regime period, the impacts under the unconventional regime are greater for some exchange rates while they remain the same for the others.

The third essay examines the impact of monetary policy on exchange rates from the perspective of an emerging economy. Specifically, I explain the case of Mexico. High frequency (second-by-second) intraday data are used in this paper. This essay focuses on the impact of monetary policy on the volatility of the Mexican peso/U.S. dollar exchange rate, and compares it with the results in the second essay. I incorporate Mexico’s monetary policy to examine how the exchange rate volatility responds to monetary policy originating from both the US and Mexico. Results show that the volatility responds more to U.S. monetary policy compared to Mexican monetary policy. Besides, the impacts of the U.S. announcements last for longer periods than the Mexican announcements.