Question 1

Question: how does MP affects bank’s corporate v.s. consumer load provision?

A more general question: corporate v.s. consumer (total, not only from banks) loan’s responses to MP shock.

Potentially: allow for asymmetry + and – shocks have different effects.

Check empirical literature

It is testable:

1. Flow of Funds of U.S.; Financial Account of the U.S.
2. Get total loans (firms) but from banks.
3. LP: how GK MP shocks affects loans

Question 2:

Statement: MP in developing countries (flexible exchange rate country => MP=interest rate) is not very relevant.

Is there empirical evidence? Document it. E(Fact 1): Irrelevance of CB in Developing (Flexible Xrate) for macroeconomy

Hypothesis: passthtough from FFR to borrowing/deposit rate is limited. This is an empirical question. Document it. E(Fact 2): no passthrough to borrow/investment relavant rates

Theoretical Hypothesis:

1. Managed xrate regime. Not interesting
2. In a D countries, bank’s market power is high. => Fact 2
3. In US/EU, FFR co-move with inter-bank market’s rate. In D-countries, there is no inter-bank market. They rely on deposits. And deposit rate react very slow/irresponsive to FFR. E(Fact 3)

E(Fact 3) (i) is it true banks rely more on deposit in D-country v.s. A-country?

(ii) it is true in D-countries, deposite rate respond less to MP shock?

E(Fact 4): maybe in D-counties, **FFR is so volatile** that financial market do not respond to FFR due to fixed adjustment cost.

Think about uncertainty + fixed adjustment cost => the wait-and-see mechanism.

Question 3:

Bank’s risk-taking literature

The risk-taking channel of MP: Jose Luis Pedyo

Question 4:

Question 5:

Masao: X-rate depreciation => boom (not due to trade, but due to better finance)

In a developing economy, is this true? D-economy trade (important is big fraction of their total consumption => depreciation cannot be good.

Donghai:

Question 2 + Question 5

* New question, For D-countries: should they use Xrate or Interest rate as Monetary policy instrument? Related to the literature on Fixed v.s. Flexible Xrate.

But Fixed v.s. Flexible debate, typically, centered around in a model where import v.s. export is the main channel.

Now, the currently literature, Masao’s paper, seems to suggest, import/export not that relevant. => Xrate’s inflence Financial sector is more relevant. This is related to Helena Rey’s research, she showed that US MP has a huge global influence, due to its impact on global financial conditions/market

* Qnew 1: Fixed v.s. Flexible debate in a model where financial market plays a more important role.

Sugarkhuu (Question 2): financial market in developing countries is very different

* Qnew 2: : Fixed v.s. Flexible debate for developing countries where trade plays an important role and the financial market plays a role (potential role).
  + Debate: you want to fix Xrate because of Net export
  + Cost: volatile FFR => with fixed adjustment cost, little pass through to banks => little influence of MP to the economy through financial market

We need a new model with both Nexport + the financial sector

* Managing floating works in terms of stabilizing Nxport, but does not work for stabilizing financial market, because the “managing” part creates highly volatile FFRs, and everyone wait and see.