Basic Iacoviello Model
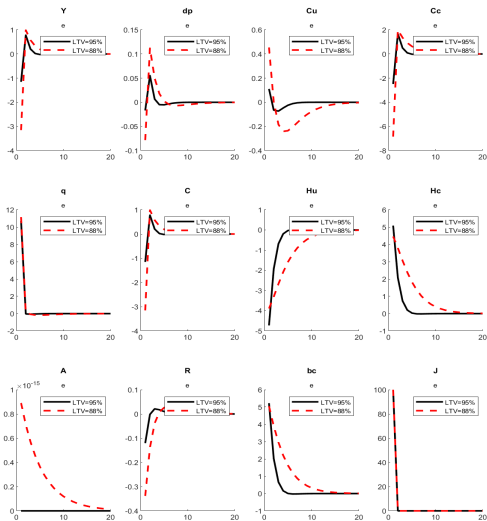## LTV Rate Policy

Jack Minchin

2021

Framework

- Uses simple formulation of Iacoviello (2005) from Lecture 6.
- Changes the Loan-to-Value rate to asses impact of lending policy changes.
- Analyses 3 shocks
  - House prices.
  - Monetary Policy.
  - Cost-push inflation.
  - Technology.

Code

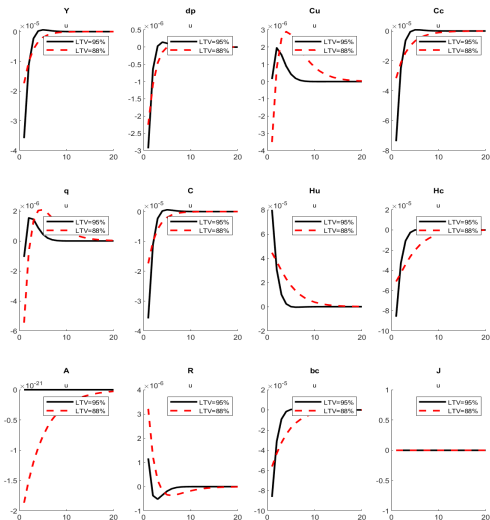There is a high probability that there are issues in the code/model.

House Price Shock IRFs

House Price Shock

Interpretation

- q shows shock to house prices
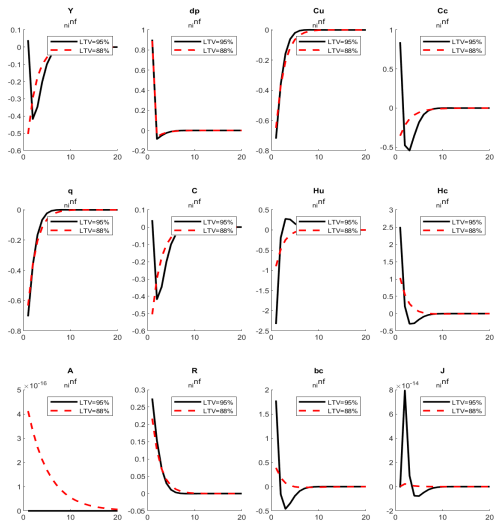- Consumption of constrained customers stays higher under lower LTV ratio.
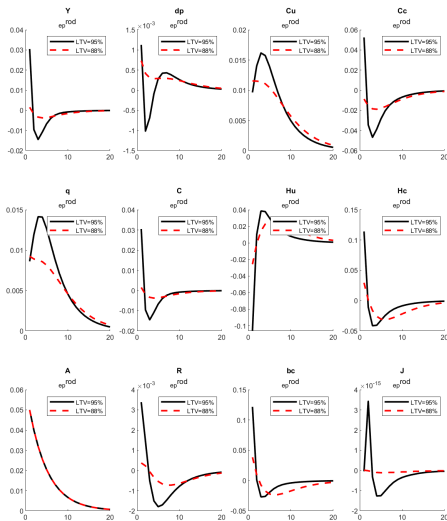
Monetary Policy Shock IRFs

Monetary Policy - Key Features

- Lower Loan-to-Value leads to a greater impact in house prices in response to a monetary policy shock.

Inflationary Shock IRFs

Technology IRFs

Technology - Key Features

- Lower Loan-to-Value has a smoothing effect - reduces the financial multiplier.