Some thoughts on money, credit, capital requirements and aggregate demand

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Background

- From ~~the~~ 1. july 2013 new and ~~higher~~ stricter capital requirements ~~have~~ were implemented for Norwegian commercial banks.

  some aspects of the new requirements are not yet clear.

- ~~Though~~ ~~many~~ Most banks ~~started to~~ increased ~~there~~ their lending rates ~~way before this date.~~

  in anticipation of the new requirements

- Respnce provoked anger at the Ministry of Finance Svein Gjedrem:

  > *- Det den nevnte banken sier, det er i forhold til et tenkt system. Det er ikke dekning for si at det blir en tredobling, sa Gjedrem til E24 fredag, med finansminister Sigbjrn Johnsen (Ap) ved sin side.*

- Further regulations on banks capital ratio is underway, since proposals for countercyclical capital buffer are now on the table.
- The Norwegian economy is ~~now~~ experiencing a mild recession(?).

  could now be at the beginning of...

My case

~~Want to argue for here~~

- Announcement of a higher capital ratio should ~~indeed~~ lead to higher lending rates. (or other adjustments)
- The introduction of capital requirement is primarily a microeconomic policy, inroduced to serve two goals: should ... be ?
  1. Remove the distortion in direction of investments that is the result of moral hozard.
  2. Limit the liability of goverment in the case of bank failure.
- A side effect of such a regulation, is its ability to change aggregate demand. ✓
- The procyclical Norwegian capital bufffer could imply that the interest rate setting of Norges Bank can be hijacked. (by Finans ?)

skrive det ut et sted ?

The bank lending channel

In the research litterature, two somewhat different views exist~~s~~, on the role banks play in the transmission mechanism of monetary policy.

- (Bernanke and Blinder, 1998):
  Reserves determine~~s~~ deposits which changs the amount of loan (exogenous money supply)
    - No equity (-)
    - Two assets (bonds and loans) (+)
- Disyatat (2011):
  Loan demands drive deposit (endogenous money supply)
    - With equity (+)
    - One asset (bank loan) (-)

Here we seek to combine elements of the two models. In addition, we also discuss the effect of introducing higher capital requirement.