

An Industrial-Organization Approach to Money and Banking

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Abstract

In this paper, we study the effect of conventional interest rate policy, quantitative easing and the reserve accounts' interest rate on the money stock in an industrial-organization model of the banking industry with money creation. Our main findings are as follows. First, under a plausible setting of the parameters, the model with money creation supports the liquidity puzzle, in which tight monetary policy increases the money stock. Second, quantitative monetary easing has a similar effect. Third, the negative interest rate policy on reserves has a negative effect on the money stock.

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