

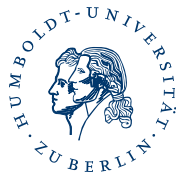
# Discussion of “Banks, Money and the Zero Lower Bound”

(by Kumhof and Wang, 2019)

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# Paper in a nutshell I

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- Introduce a bank-based monetary transactions mechanism using a sequence of deposits-in-advance constraints.
- They study the implications of a specific financial constraint, the **zero lower bound (ZLB) on deposit interest rates**.
- The use of a strictly financial (non-physical) perspective on bank balance sheets yield novel results on the distinction between income and purchasing power and on the ZLB.

## Paper in a nutshell II

- Estimate key parameter, i.e., the semi-elasticity of loan supply with respect to the lending spread  $\Rightarrow$  1 percentage point increase in the spread is associated with, ceteris paribus, a 10 percent increase in the level of loans.
- The loan optimality condition is

$$l_t = \ell_t^{\text{tgt}} \left( \frac{i_t - i_t^d}{\kappa} \right)^\xi .$$

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- ▶ In the unconstrained economy an increase in the policy rate causes banks to set  $i_t^d$  to obtain desired spread.
- ▶ In this ZLB-constrained environment **higher policy interest rates are expansionary**.
- ▶ **New(?) transmission mechanism:**  
 $\pi \uparrow \rightarrow \text{spread} \uparrow \rightarrow \text{deposit creation (=loans)} \uparrow \rightarrow \text{AD} \uparrow$

# Discussion of the results

- Well written paper!
- Connects a large body of literature
  - ▶ From Schumpeter (1934), Keynes (1939) to Brunnermeier and Koby (2018)
  - ▶ From Kashyap and Stein (1993) to Post-Keynesians like Minsky (1977), Moore (1979), Lavoie (2014) and Keen (2014, 2015)
- Highly relevant topic and very interesting results!
- New Keynesian *financing* (FMC) model  $\Rightarrow$  more research is needed!

# Discussion of the results

- **(Perhaps overly) Critical comments:**

- ▶ “...shocks that have a disinflationary effect, and that therefore trigger a **reduction in the nominal policy rate [...] reduces output** in a ZLB-constrained economy unless the spread semi-elasticity of loan supply is extremely low.”



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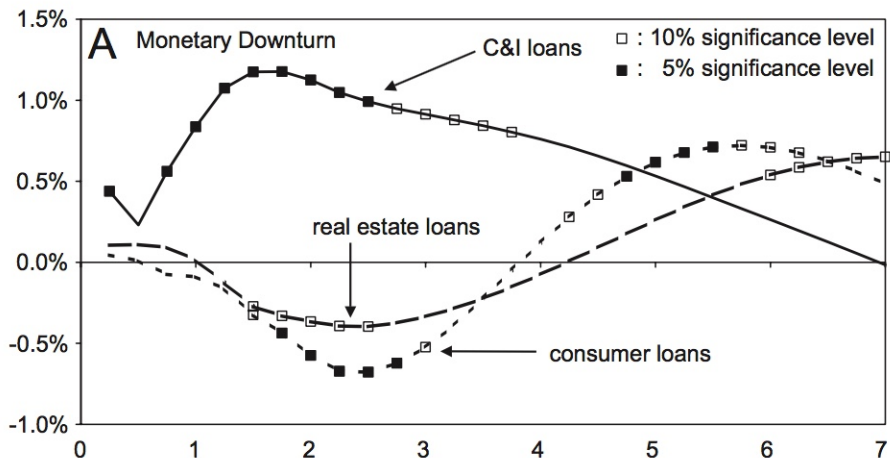
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⇒ New mechanism? Maybe just (special case) of Bank-lending channel (Bernanke & Blinder, 1988)?  
→  $i_t \uparrow \rightarrow$  C&I loans $\uparrow$  (while consumer and real state loans $\downarrow$ )

# C&I loans “perverse” response to MP

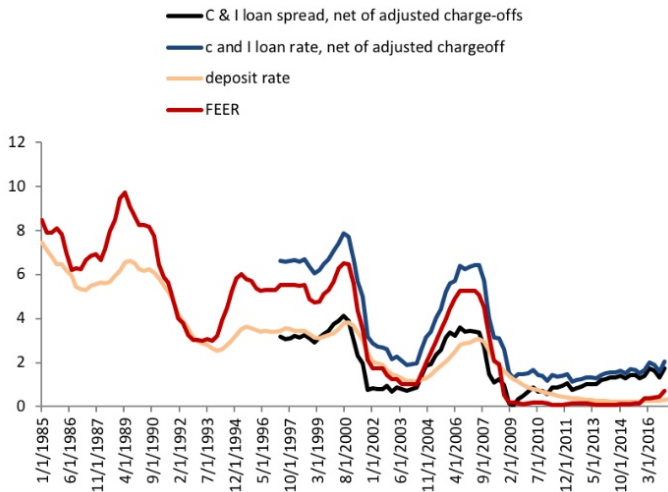
*W.J. den Haan et al. / Journal of Monetary Economics 54 (2007) 904–924*



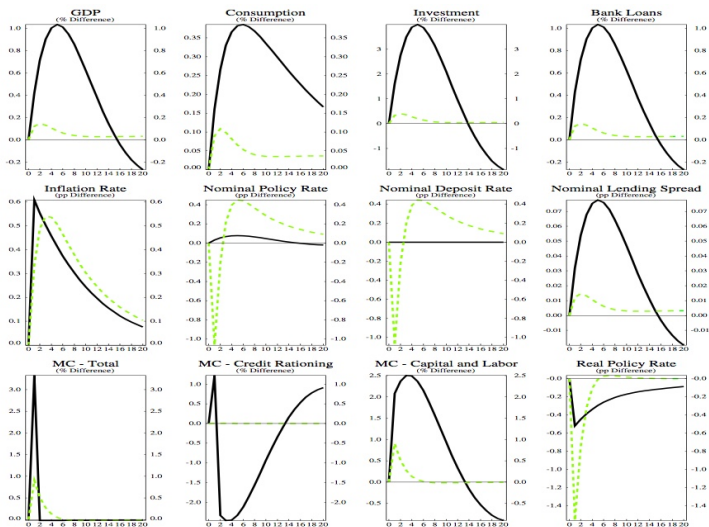
Panel A of Fig. 2 plots the responses of the three loan components after a **positive innovation** in the federal funds rate.

# Discussion of the results

Figure 2. US Commercial and Industrial Loan Spreads



# Discussion of the results



ZLB-Constrained (solid) versus Unconstrained (dashed) Economy (spread semi-elasticity = 10)

Temporary Monetary Policy Shock (i.e., a **reduction in the policy rate**)

# Further Comments

- **Flattening of the Phillips Curve?**

- ▶ Barnichon and Mesters (2018) → “there is no evidence of a flattening of the Phillips curve after the mid 80s.”
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## ● **Role of Money**

- ▶ Unit of account
- ▶ Medium of exchange ← Focus of paper!
- ▶ Storage of value → Can money/deposits in your model do this?

**Thank you for your attention!**

# References

- Barnichon, R. & Mesters, G. (2018) Identifying the Phillips Curve from Shifts in Demand
- Bernanke, B. S. & Blinder, A. S. (1988), Credit, Money, and Aggregate Demand, *American Economic Review* 78(2), 435-439.
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- Gali, J. & Gambetti, L. (2018) Has the U.S. Wage Phillips Curve Flattened? A Semi-Structural Exploration