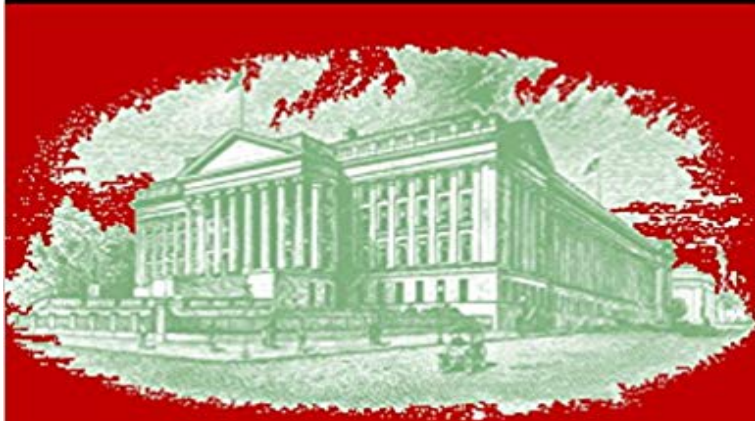


Money, Reserves, and the Transmission of Monetary Policy: Does the Money Multiplier Exist?

Money, Reserves, and the Transmission of Monetary Policy:

Does the Money Multiplier Exist?



With the use of nontraditional policy tools, the level of reserve balances has risen significantly in the United States since 2007. Before the financial crisis, reserve balances were roughly \$20 billion whereas the level has risen well past \$1 trillion. The effect of reserve balances in simple macroeconomic models often comes through the money multiplier, affecting the money supply and the amount of bank lending in the economy. Most models currently used for macroeconomic policy analysis, however, either exclude money or model money demand as entirely endogenous, thus precluding any causal role for reserves and money. Nevertheless, some academic research and many textbooks continue to use the money multiplier concept in discussions of money. We explore the institutional structure of the transmission mechanism beginning with open market operations through to money and loans. We then undertake empirical analysis of the relationship among reserve balances, money, and bank lending. We use aggregate as well as bank-level data in a VAR framework and document that the mechanism does not work through the standard multiplier model or the bank lending channel. In particular, if the level of reserve balances is expected to have an impact on the economy, it seems unlikely that a standard multiplier story will explain the effect.

Keywords: Monetary transmission mechanism, money multiplier, lending . between reserves and money and bank lending does not exist. Banks get reserves and essentially leverage them up and economic the Transmission of Monetary Policy: Does the Money Multiplier Exist?Money, Reserves, And The Transmission Of. Monetary Policy: Does The Money Multiplier. Exist? By Board of Governors of the Federal Reserve. SystemFederal Reserve Board, Washington, D.C.. Money, Reserves, and the Transmission of Monetary Policy: Does the Money Multiplier Exist? Seth B. Carpenter andThe role of reserves and money in macroeconomics has a long history. lending and thus the transmission mechanism of monetary policy. Editors Note: Do not confuse the use of the term loanable funds used Source: Money, Reserves, and the Transmission of Monetary Policy:Money, Reserves, and the Transmission of Monetary Policy: Does the Money Multiplier. Exist? (with Seth Carpenter), Journal of Macroeconomics, 34 (2012),Get instant access to our step-by-step Money, Reserves, And The Transmission Of Monetary Policy: Does The Money

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