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Research Article

Other financial corporations: Cinderella or ugly sister of empirical monetary economics?

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PDF

Abstract

This paper reports estimates of an econometric model of the determinants of OFCs' broad money holding and M4 lending to OFCs. This is of interest both as providing information about a component of UK money and credit aggregates and because it provides some evidence of the link between financial activity and growth of the real economy. We model the long-run equilibria for money holding and lending to this sector as being driven by GDP, wealth, the return to financial services and various interest spreads. The dynamics of OFCs' money and lending are shown to be interdependent. We then consider the evidence for interactions between OFCs and other sectors. Our results indicate that M4 lending to OFCs is significantly related to aggregate investment in the long run, but is largely unrelated to the spending of households. Copyright © 2005 John Wiley & Sons, Ltd.

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