Metroeconomica / Volume 50, Issue 3 / pp. 351-385

Bond Rate, Loan Rate and Tobin's *q* in a Temporary Equilibrium Model of the Financial Sector

Reiner Franke, Willi Semmler

First published: 28 June 2008
https://doi.org/10.1111/1467-999X.00077

Abstract

The paper sets up a portfolio model of the financial sector with markets for equity, government bonds, money and debt. The comparative statics of the temporary equilibrium are studied analytically and numerically. Subsequent simulations explore the reactions of financial markets in response to stylized oscillations of some of the exogenous variables. These include economic activity, income distribution, inflation, investors' sentiment, and banks' perceived bankruptcy risk of firms. Special emphasis is put on the resulting cyclical pattern of Tobin's *q* and the interest spread between loan rate and bond rate.