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Original Articles

Monetary and banking policy transmission through interest rates: an empirical application to the USA, Canada, the UK and the Eurozone

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and therefore the central bank's policy capabilities. In the empirical part, a Johansen (1988) cointegration based error-correction procedure (ECM-GE) is implemented for the wholesale interest rate selection. Then an LSE-Hendry general-to-specific model (GETS) is applied, for the revelation of the banking sector pass-through interest rate behaviour. In the empirical part, on the issue of the wholesale interest rate selection, the USA and the Eurozone seem to favour the Money Market rate while the UK and Canada favour the central bank policy rate. The results indicate two types of interest rate pass-through behaviour, with market structure implication – namely, the US and UK banking systems contrasted with Canada-Eurozone.

Keywords:

interest rate pass-through behaviour monetary policy transmission asymmetries

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Notes



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3. For a (2001).

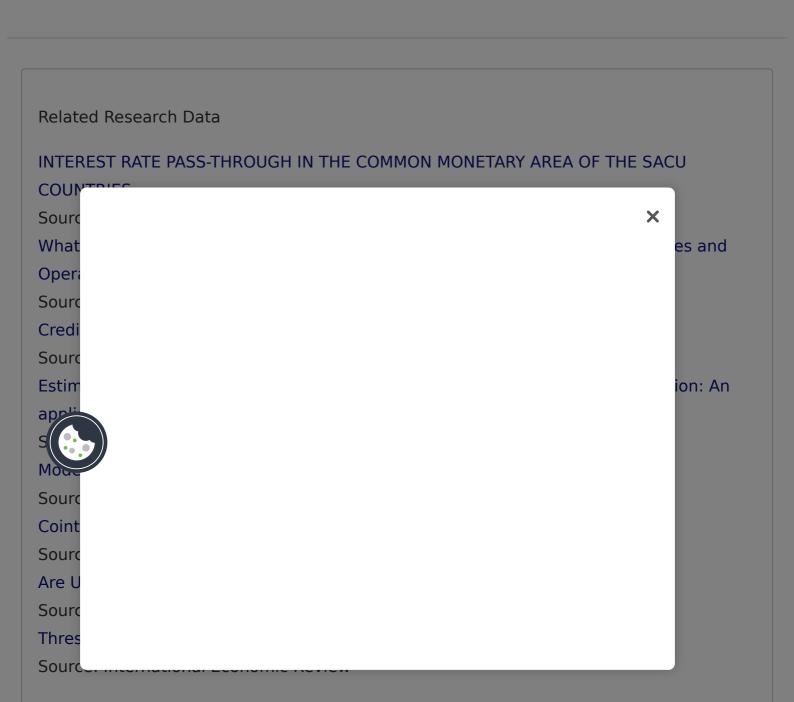
- 4. As Neuwark and Sharpe (<u>1992</u>) indicate, asymmetry in a market is less pronounced when competition is fierce.
- 5. The econometric process implemented in the second part of our study (the causal relationship between money market and central bank rates) is a typical Johansen cointegration-based error-correction procedures (ECM-GE). This method is well known and we do not consider that it is necessary to be further explained here see, for example, Lutkepohl and Reimers (1992).
- 6. See Goodwin and Harper (2000) for the advantages of the TAR model over the simple ECM proposed by Von Cramon-Taubadel (1998).
- 7. Meyer and Von Cramon-Taubabel (2004) provide a comprehensive discussion of the possible types and causes of asymmetric price adjustments together with a brief review of the relevant empirical results.
- 8. In econometric terms, the corresponding 'activation' will be triggered in Equation <u>4</u> with the help of dummy variables (e.g. DUM). More specifically, all positive coefficients will take the value of 1 when a positive change in the dependent variable occurs and will be zero otherwise (1–DUM).

9. This model is tested according to the Non-Linear Least Squares (NLLS) methodology.

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- 15. Actually for the loan rate we used Germany's and France's mortgage rates while for the deposit rate we used the simple deposit rate in the case of France, and the three-month deposit rate in the case of Germany. All these rates are available from the IMF International Financial Statistics data set.
- 16. It is important to report here that, due to the existing IMF data availability, the EU money market pass-through behaviour to the retail rates is examined commencing from 1997m1.
- 17. We can alternatively calculate jointly the ($\phi_1 + \gamma$) pass-through coefficients of Equation <u>4a</u>. However in almost all the examined loan and the deposit market rate cases, the contribution of the γ coefficient is minor.
- 18. Note that the wholesale selection rate does not change when we apply the VAR-EC tests after the Bank of England's independence (1997).



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