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Lending rate stickiness and monetary transmission mechanism: the case of Canada and the United States

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Abstract

This paper examines the short-run and long-run impacts of changes in money market rates on lending rates in Canada and the US. This is done using an error-correction modelling approach. The results show that the short-run impact of changes in money market rates on lending rates is positive and significant in both countries. In the long run, the impact of changes in money market rates on lending rates is negative and significant in both countries. The results also show that the impact of changes in money market rates on lending rates is larger in Canada than in the US. This is due to the fact that the money market in Canada is more integrated with the US money market than the money market in the US is with the Canadian money market. The results have important implications for monetary policy in both countries. The results suggest that the Bank of Canada should pay more attention to the impact of changes in money market rates on lending rates in Canada. The results also suggest that the Federal Reserve should pay more attention to the impact of changes in money market rates on lending rates in the US.

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