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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 framework, which distinguishes short-term impacts from long-run or full equilibrium effects. It is found that lending rates in the US have been stickier than those in Canada. However, the US lending rate rigidity, measured by the impact multiplier, has decreased in recent years. In contrast, Canada's lending rate has become stickier during the 1990s. The differences in adjustment speed between the two countries are attributed to the structure of their financial systems.

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