

Abstract :

We extend the standard New Keynesian model by introducing an heterogeneous banking sector acting as intermediary between households and firms. We use this model to understand how a negative financial shock may spread to the whole economy, and how monetary policy may restore equilibrium. When the central bank precommits to react to one or several "banking variables", rational and forward looking agents anticipate the monetary reaction and behave accordingly. This anticipation plays such an important role that in fine the fall in the policy rate is lower than with a standard Taylor rule. When the central bank cannot precommit, anticipations do not play anymore and the central bank must reduce aggressively its policy rate.

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Olivier Pierrard holds a PhD from the University of Louvain-la-Neuve, and is currently economist at the Economics and Research Department of the Central Bank of Luxembourg. He is also invited lecturer at the University of Luxembourg and the University of Louvain-la-Neuve. His research focuses on dynamic stochastic general equilibrium models, and especially on the representation of imperfections in the labour and financial markets.



The Center for Research in Economic Analysis of the University of Luxembourg is pleased to invite you to the **Lunchtime Seminar in Economics**:

Banking shock and monetary reactions in a New Keynesian model

(joint with Gregory de Walque)

Olivier Pierrard

Banque Centrale du Luxembourg

October 20, 2010

13:00 – 14:00

Campus Limpertsberg
Building of Science – Room BS001
162a, avenue de la Faiencerie
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Lunch is planned for the participants

Registration: by email to fdef-colloques@uni.lu

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