

Author's Accepted Manuscript

Monetary Policy and Risk Taking

Ignazio Angeloni, Ester Faia, Marco Lo Duca



PII: S0165-1889(14)00326-1
DOI: <http://dx.doi.org/10.1016/j.jedc.2014.12.001>
Reference: DYNCON3144

www.elsevier.com/locate/jedc

To appear in: *Journal of Economic Dynamics & Control*

Received date: 22 October 2013
Revised date: 1 December 2014
Accepted date: 3 December 2014

Cite this article as: Ignazio Angeloni, Ester Faia, Marco Lo Duca, Monetary Policy and Risk Taking, *Journal of Economic Dynamics & Control*, <http://dx.doi.org/10.1016/j.jedc.2014.12.001>

This is a PDF file of an unedited manuscript that has been accepted for publication. As a service to our customers we are providing this early version of the manuscript. The manuscript will undergo copyediting, typesetting, and review of the resulting galley proof before it is published in its final citable form. Please note that during the production process errors may be discovered which could affect the content, and all legal disclaimers that apply to the journal pertain.

Monetary Policy and Risk Taking*

Ignazio Angeloni

European Central Bank and BRUEGEL

Ester Faia

Goethe University Frankfurt, CFS and SAFE

Marco Lo Duca

European Central Bank

First draft: November 2009. This draft: December 2014.

Abstract

We assess the effects of monetary policy on bank risk to verify the existence of a risk-taking channel – monetary expansions inducing banks to assume more risk. We first present VAR evidence confirming that this channel exists and is particularly significant on the bank funding side. Then, to rationalize this evidence we build a macro model where banks subject to runs endogenously choose their funding structure (deposits vs. capital) and risk level. A monetary expansion increases bank leverage and risk. In turn, higher bank risk in steady state increases asset price volatility and reduces equilibrium output.

Keywords: bank runs, risk taking, monetary policy.

JEL: E4,E5,G01.

*Correspondence to: Ignazio Angeloni, Kaiserstrasse 29, 60311 Frankfurt am Main, Germany, ignazio.angeloni@ecb.int; Ester Faia, Department of Money and Macro, Grüneburgplatz 1, Frankfurt am Main, Germany, faia@wiwi.uni-frankfurt.de; Marco lo Duca, Kaiserstrasse 29, 60311 Frankfurt am Main, Germany, marco.lo_duca@ecb.int. We thank participants at various seminars and conferences. Ester Faia acknowledges financial support from the EU grant SSH-CT-2009-225149. The authors are the sole responsible for the content of the paper.

Download English Version:

<https://daneshyari.com/en/article/5098343>

Download Persian Version:

<https://daneshyari.com/article/5098343>

[Daneshyari.com](https://daneshyari.com)