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The Role of Financial Intermediaries in Monetary Policy Transmission[☆]

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Abstract

The recent financial crisis has stimulated theoretical and empirical research on the propagation mechanisms underlying business cycles, in particular on the role of financial frictions. Many issues concerning the interactions between banking and monetary policy forced policy makers to redefine economic policies, and motivated macroeconomists to focus on the implications of financial intermediation constraints on asset price fluctuations, the behavior of non-financial firms, households, governments and in turn for real macroeconomic performance. This paper surveys research on the role of financial intermediaries and financial frictions in the transmission of monetary policy and discusses how to design both the new banking regulatory and supervisory structures and monetary policy in order to stabilize the economy. It also serves as an introduction to this special issue.

Keywords: Financial Intermediation, DSGE models, Financial Frictions JEL code: E40, E50, G20

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