Abstract

I build a general equilibrium model of the transmission of monetary policy on bank lending. Bank lending is done by individual banks that face random investment opportunities by creating inside money. Banks then trade reserves on an interbank money market to fulfill a reserve requirement. The monetary authority has three policy tools at its disposal: The inflation rate, the money market rate, and the reserve requirement. The model shows that all of these tools have sizable effects on bank lending.

Keywords: Banking, reserves, inside money

JEL codes: E4, E5

Preliminary and incomplete - please do not circulate