A Model of Intermediation, Money, Interest, and Prices∗

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Abstract

A model integrates a modern implementation of monetary policy (MP) into an incomplete-markets monetary economy. Policy sets corridor rates and conducts open-market operations and fiscal transfers. These tools grant independent control over credit spreads and inflation. We study the implementation of spreads and inflation via different MP instruments. Through its influence on spreads, MP affects the evolution of real credit, interests, output, and wealth distribution (both in the long and the short run). We decompose effects through different transmission channels. We study the optimal spread management and find that the active management of spreads is a desirable target.

Keywords: Monetary Economics, Monetary Policy, Credit Channel.

JEL: E31-2, E41-4, E52-2

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