The Bank Lending Channel and the Loan Puzzle: A Pre & Post Great Recession Analysis

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Abstract

We analyze the effectiveness of the bank-lending channel of monetary transmission mechanism by estimating a five variable VAR model. In particular, this paper asks if there is a significant change in the bank lending channel after the great recession and in relation to that whether the absurd response of commercial and Industrial loans still exists following a monetary tightening. We use pre and post great recession quarterly data on consumer, commercial, Industrial and mortgage loans, and Industrial Production Index, to estimate the impulse responses for a 50 basis point increase in the federal funds rate. We also derive the forecast error variance decomposition for the different bank loan components and measure the percent variation in response to a monetary policy shock.

Key Words: Monetary Policy, Loan Components, Impulse Responses,

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