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The Role of Monetary Shocks in the U.S. Business Cycle

By Qazi Haque

GRIN Verlag GmbH Mrz 2015, 2015. Taschenbuch. Book Condition: Neu. 211x151x11 mm. Neuware - Bachelor Thesis from the year 2013 in the subject Economics - Finance, grade: First Class Honours, The University of Adelaide, language: English, abstract: The purpose of this study is to illustrate how the basic Real Business Cycle (RBC) model can be modified to incorporate money in an attempt to construct monetary business cycle models of the U.S. economy. This is done for one case where money enters the model as direct lump-sum transfers to households and for the other case where money injections enter the economy through the financial system. Interestingly, the two channels generate very different responses to a money growth shock. In the first case, a positive money growth shock increases nominal interest rates and depresses economic activity, which is called the anticipated inflation effect. However, the popular consensus among economists is that nominal interest rates fall after a positive monetary shock. This motivates the construction of our second model where it is conjectured that the banking sector plays an important role in the monetary transmission mechanism and money is injected into the model through financial intermediaries. It is observed in this model that...



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