Halle Institute for Economic Research
Member of the Leibniz Association

IWH Research Seminar in Economics

Monday, April 23, 2018, 2.15pm – 3.45pm, conference room, ground floor

Multi-period Loans, Non-linearities and Monetary Policy: A Quantitative Evaluation

Kristina Bluwstein, Bank of England

We study the implications of multi-period mortgage loans for monetary policy, considering several realistic modifications – fixed interest rate contracts, lower bound constraint on newly granted loans, and possibility for the collateral constraint to become slack – to an otherwise standard DSGE model with housing and financial intermediaries. We estimate the model in its nonlinear form and argue that all these features are important to understand the evolution of mortgage debt during the recent US housing market boom and bust. We show how the non-linearities associated with the two constraints make the transmission of monetary policy dependent on the housing cycle, with weaker effects observed when house prices are high or start falling sharply. We also find that higher average loan duration makes monetary policy less effective, and may lead to asymmetric responses to positive and negative monetary shocks.

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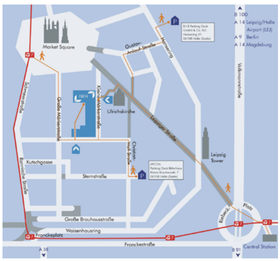

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