

IWH Research Seminar in Economics

October 8, 2018, 2.15pm – 3.45pm, conference room, Leipziger Straße 100



The New Area-Wide Model II: An Extended Version the ECB's Micro-founded Model for Forecasting and Policy Analysis with a Financial Sector

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(together with Peter Karadi, Sebastian Schmidt and Anders Warne, European Central Bank)

This paper provides a detailed description of an extended version of the ECB's New Area-Wide Model (NAWM) of the euro area (cf. Christoffel, Coenen and Warne, 2008). The extended model – called NAWM II – incorporates a rich financial sector with the threefold aim of (i) accounting for a genuine role of financial frictions in the propagation of economic shocks and policies and for the presence of shocks originating in the financial sector itself, (ii) capturing the prominent role of bank lending rates and the only gradual interest-rate pass-through in the transmission of monetary policy in the euro area, and (iii) providing a structural framework useable for assessing the macroeconomic impact of the ECB's large-scale asset purchases conducted in recent times. In addition, NAWM II includes a number of other extensions of the original model reflecting its practical uses in the policy process over the past years.

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