

Financial regulations and bank credit to the real economy

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Abstract

The modelling of interbank markets has typically focused on them in isolation. This leaves unanswered questions concerning the impact of financial regulation on real economic performance. We present a new agent-based model focusing on the linkage between the interbank market and the real economy with a stylised central bank acting as lender of last resort. Using this model we address the tradeoff between stability and economic performance for different structures of the interbank market. We also explore the efficacy of recent regulatory changes using our richer model.

Keywords: Financial Regulation, Bank Lending, Systemic Risk

JEL: G21, G28, E32

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