

A Comparative Analysis of Macroprudential Policies

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Abstract

The global ... financial crisis has clearly shown that macroeconomic stability is not sufficient to guarantee the stability of the financial system. Hence, the recent policy debate has focused on the effectiveness of macroprudential tools and their interaction with monetary policy. This paper aims to contribute to the macroprudential policy literature by presenting a formal comparative analysis of three macroprudential tools: (i) reserve requirements, (ii) capital requirements and (iii) a regulation premium. Utilizing a New Keynesian general equilibrium model with ... financial frictions, we find that capital requirements are the most effective macroprudential tool in mitigating the negative effects of the ... financial accelerator mechanism. Deriving welfare-maximizing monetary and macroprudential policy rules, we also conclude that irrespective of the type of the shock affecting the economy, use of capital requirements generates the highest welfare gains.