

## **Abstract**

This thesis studies various ways in which the financial sector may affect the real economy. Particular attention is devoted to the bank lending channel of monetary transmission which amplifies monetary policy through changes in the supply of bank loans. We analyze the theoretical foundations of this channel, review international empirical literature and identify characteristic features of Czech financial system. Due to the important role of bank loans in the Czech Republic and the limited availability of alternative sources of finance, we hypothesize that the channel should be operative in the Czech Republic. Using a VEC model we analyze aggregate data for 2001-2011. Impulse response functions are then used to identify responses of the lending rate and the amount of loans to a monetary shock. Based on these responses we conclude the bank lending channel was operative.