

Abstract

This thesis studies the interaction between monetary and macroprudential policy using a DSGE model with real and financial frictions under government and financial shock scenarios. Countercyclical capital requirements are used as a macroprudential policy tool combined with a Taylor rule for monetary policy. In the case of the government shock, our findings indicate that policies' coordination reduces the volatility of the output vis-à-vis a “monetary policy only” regime. Analysis of financial shocks indicates that monetary policy alone can suffice to ensure financial stability. Lastly, welfare analysis suggests there is no optimal policy combination for all agents and highlights a redistributive effect of both shocks, showing that policy that is beneficial for one group of agents can decrease welfare for another.

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