Bank Regulation and post-2008 US Monetary Policy

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Abstract

Since U.S. bank capital holdings began rising almost concurrently with the monetary policy change after 2008, we examine the role of capital requirements for monetary policy regimes. While standard models predict that equilibrium determination and responses to aggregate shocks are fundamentally affected at the zero lower bound (ZLB), we show that these effects are absent when bank capital requirements are binding. Estimating a model version with occasionally binding capital requirements, we find that they have been permanently binding after 2008. We further show that capital requirements neither induce monetary non-neutrality nor amplify responses to macroeconomic shocks above the ZLB.

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