Liquidity, Interbank Market, and Capital Formation

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Abstract

This paper presents the monetary model that links interbank markets to capital accumulation and growth. The purpose of this paper is to study how interbank markets affect real economic activities and to seek to the monetary policy implications. The model shows that, in the stationary equilibrium, the economy with interbank markets attains higher capital stock than the economy without interbank markets because of the precautionary money savings. In addition, I find that inflationary policy is more desirable in the economy without well-functioning interbank markets.

Key words: overlapping generations, random relocation, money, interbank markets.

JEL Classification: E42, E51, G21