**Index**

1-year adjustable mortgage interest rate  141, 145, 146, 147, 151, 152, 182  
autocorrelation statistics  168, 169  
heteroskedasticity  170  
multicollinearity  171, 172  
regression results  175, 177, 182  
unit root tests  158, 159, 160, 162, 163, 164, 165, 167  
2SLS techniques  124  
10-year Treasury bond rate  101, 106, 121, 123, 128  
15-year fixed mortgage rate  140, 141, 145, 146, 147, 151, 152  
autocorrelation statistics  168, 169  
GMM  179  
heteroskedasticity  170  
multicollinearity  171, 172  
regression results  173, 176  
root tests  158, 159, 160, 163, 164, 165  
30-year fixed mortgage rate (MRTG)  137, 140, 141, 145, 146, 147, 151, 152  
autocorrelation  117, 118, 168, 169  
DFGLS unit root test  108, 110, 160, 165  
GMM  178  
heteroskedasticity  116, 170  
KPSS unit root test  114, 115, 159, 164  
multicollinearity  119, 120, 172  
Phillips-Perron test statistics  112, 113, 158, 163  
regression results  173, 175  
AAA Corporate Bond Rate  91, 106, 120, 122, 126  
ABS (asset-backed securities)  27, 28, 29  
Acharya, V.V.  28  
acquisitions  41, 45, 55  
ADF (Augmented Dickey-Fuller)  148, 149  
adjustable mortgage interest rate  145, 146, 147, 151, 152, 174–5, 177, 181–2  
adjustable rate mortgages  6, 137, 139, 140, 141  
Adrian, T.  144  
aggregate demand  7, 8, 18, 19, 20, 25  
and interest rates  131, 144  
and monetary policy  22  
AIG  32  
Altunbas et al.  29–30, 32, 57  
Anderson, R.G.  34–5  
ANW (available net worth)  77, 80, 83  
see also net worth  
asset markets  44  
asset price channel  23–5  
asset prices  18, 23–5, 32–3, 63–4, 78, 82, 142  
changes  77, 83, 84  
determination  3  
assets  4, 14, 26–7, 79, 157  
and Basel I  39, 40  
expansion  75, 81, 83  
and foreign official purchases  98  
foreign-owned in US  36, 37  
and GDP  61–2  
and margin requirements  45  
reshuffling  72  
total  77, 84  
autocorrelation  99, 117–18, 150, 168–9  
BAA Corporate Bond Rate  91, 106, 121, 123, 127  
balance sheet channel  21–2  
balance sheet constraints  4–5, 17, 35, 44, 50, 57–60, 72–86  
decreasing  60, 183
Central banks and financial markets

and derivative market 33
and securitization 28, 29
balance sheet expansion 4–5, 6, 8–9, 12, 54, 72, 77–8, 84–6, 183
and ANW 80
and asset price determination 3
and Basel I 40
and decreasing funding constraint 82
and haircuts and margin requirements 76
and loans 73, 75
and Regulation Q 38
and US financial markets 60–61
balance sheets 14, 18
and securitization 32
bank holding companies 42
banking capital and Basel I 39–40
Banking Holding Company Act, 1956 41
bank lending channel (bank’s balance sheet channel) 22–3
banks
commercial 28, 31, 38, 41, 63, 142
loans 22
and securitization 29–30
Barth et al. 41
Basel I 37, 39–40, 79, 80
Baum et al. 150
Bernanke, B. 15, 21, 38–9, 134, 139, 153
and the Great Moderation 3, 12, 184
and long-term interest rates 93
and Regulation Q 142
bonds 28, 41, 42, 53, 93, 157
prices 23–4
and SPVs 27
see also BAA Corporate Bond Rate
boom and bust 45
borrowings 76, 81
increase 80
short term 22
branching, interstate 55
Bureau of Economic Analysis 157
capital 45, 79, 80
core 39
for loans 75
surplus 59
capital adequacy ratios 40, 42, 58, 76, 80, 84
capital flows 35, 77, 97, 99, 101, 147–8
and interest rates 98, 149, 151, 152, 153, 183–4
capital inflows 106, 157
capital markets 32, 51, 60, 75, 77
and collateral 76
and depository institutions 48, 50
and securitization 30
capital mobility 35
capital requirements 39–40, 80, 81, 82, 84
cash financing 136, 137
cash flow 21, 22, 26
centralization 55–7, 183
Cetorelli et al. 56
Cohen, B.H. 78
collateral 21–2, 45, 76
commercial banks 28, 31, 38, 41, 63, 142
Commodity Future Trading Commission (CFTC) 43
Commodity Modernization Act (CMA) 43
competition 26, 55–7, 60, 183
consolidation 55
Consumer Price Index (CPI) 133
Consumer Price Inflation (CPI) 106, 157
core capital 39
corporate bond rate 91, 106, 120–21, 122–3, 126–7
correlations 94–5
cost of capital theory 20
counter-cyclical Fed policies 65, 184
Cowan, C. 26
credit aggregates 18
credit channel 20–23, 103, 131, 143–4
credit creation mechanism 60, 62
credit default swaps (CDS) 31–2, 40, 42, 43, 57, 58–9
credit derivative deals 57
credit expansion 5, 45, 59, 60, 82–3, 185
and endogeneity 4, 14, 64, 184
and financial assets 62–3
credit rating agencies 59
credit ratings 60
credit rationing 60, 65, 74
credit risk 40
credit standards, decreasing 65
Crotty, J. 57

D’Arista, J. 16, 17
debt 39, 40, 54
decoupling, dual 4, 5, 6, 8, 14, 60–64, 65, 153, 183, 185
de facto measures of financial integration 35
demand deposits 38, 79
deposit/depository institutions 47, 51, 52, 53, 54, 55, 58
and capital markets 50
and discount window operations 46, 48, 49
deposits 52, 83
and demand 79
expansion 82
increase 80, 81
and loans 51
long term 54
and reserves 75
deregulation 16, 26, 38, 41, 183
derivatives 30–33, 43, 52, 56, 58, 59, 106, 157
direct regulatory cushions 77
discount rate 142
discount window operations 1, 46, 48, 49, 142, 143
disintermediation in the financial system 30
Dokko et al. 133–4
Draghi, M. 2
dual decoupling 4, 5, 6, 8, 14, 60–64, 65, 153, 183, 185
Ducoudre, B. 93
Durbin-Wu-Haussman endogeneity test 99, 149
earnings, retained 77, 78, 83
endogeneity 98, 99, 124, 148, 149, 184
and credit expansion mechanism 60, 62, 64
and expansion of balance sheets 3, 4, 5, 8–9, 12, 14, 73, 78, 84, 86
of money supply 16–17
Epstein, G. vii, 66
equity 45, 77, 78, 79, 83, 84
Eurodollar borrowing 45

evolutionary-institutionalist economic school of thought’s methodology 6
excess reserves 79, 80, 81
low 82
exchange rate channel 23
expectation channel 59
expectations theory 93
exports 23

the Fed
and CDS 31
counter-cyclical policies 65
and dual decoupling 12, 13, 14, 183
and housing 142–54
and monetary policy 130, 131, 133, 134, 143
and overnight interest rates 18
regulatory framework 13, 37–50
and regulatory requirements 59
and securitization 32
see also Fed rate
Federal Deposit Insurance Corporation (FDIC) 42
Federal Housing Finance Agency 157
federally related mortgage pools 53
Federal Reserve Bank of Philadelphia 157
Fed rate 6, 14–15, 62–4, 142–4
and the housing boom 132, 135
and long-term interest rates 89–129, 134
and mortgage interest rates 6, 132, 144–52
and rate targets 48, 50
and short-term funds 22, 23
fee income 52
Feinman, J.N. 45
Feldstein, M. 14
financial assets 4, 14
and GDP 61–2
price 3
see also assets
financial crisis, 2008 130–54
financial derivatives 106, 157
see also derivatives
financial innovations 25–35, 39–40, 43, 55–6, 58, 82
financial integration 13, 15, 26, 35–7, 82, 183
financialization 15, 35
financial prices and the Fed’s interest rate 63–4
financing, cash 136, 137
firm balance sheet channel 21–2
fixed mortgages 137, 139, 145, 151, 173, 175–6, 178–9
downward trend 140, 141
flexibility 54, 59, 74
and OTC contracts 30
and Regulation Q 39
and securitization 32, 41–2, 52
Flow of Funds Accounts 137
foreign capital flows 99, 149
and interest rates 151, 152, 153, 183–4
foreign funds 106, 132, 157
foreign official purchases 98, 149
FRB/US Dynamic Stochastic General Equilibrium models 133–4
Friedman, B.M. 1–2, 11, 15–16, 17, 58
Friedman, Milton 7
funding constraints 58, 82, 83
funding corporations 53, 54
funds
availability of 74, 82
foreign 106, 132, 157
increasing 58
GDP (gross domestic product)
and balance sheet growth 76
and financial assets 61–2
and gross capital flows 35
Geithner, T. 15, 51
General Theory (Keynes) 24
Gertler, M. 15, 21, 153
Glass-Steagall Act 41, 42, 55
GLBA (Gramm-Leach-Bliley Act) 41, 43
global financialization 15, 35
GMM (General Methods of Moments)
98–9, 124–5, 126–9, 148, 149, 150, 178–82
Gnos, C. 73
Goderis et al. 32
Goodfriend, M. 3, 12, 20
Government Sponsored Enterprises (GSE) 53
long-term 64
low 26
medium term 147
and Regulation Q 38
smoothing 63
see also overnight interest rates
The International Convergence of
Capital Measurements and
Capital Standards (Basel I) 39–40
see also Basel I
interstate banking and branching 41,
55
investment demand 19
issuers of asset-backed securities 53, 54
IV techniques 124, 125
Jorgenson, Dale W. 20
JP Morgan 57
Keynes, J.M. 24
King, M. 15–16
KPSS unit root test 98, 114–15, 148,
149, 159, 164
Kregel, J. 30, 52–3
leakage rate, low 82
legal capital adequacy ratio 80
leverage 31, 59, 63, 76, 84
Levine, R. 42, 43, 153
liabilities 77, 79, 81, 82
life insurance companies 55
liquidity 29, 31, 33
loan creation 73, 81
loan demand 76
loan-deposit nexus 50–54, 76
loans 22, 52, 80, 143–4
and CDS agreements 40
expansion 59–60, 75–6, 82, 83
illiquid long term 58
increase 81
mortgages 57
see also mortgages
and Regulation Q 38
loan to value ratio 60
long-term debt arrangements 54
long-term interest rates 5, 15, 20, 183–4
and the Fed rate 64, 89–129, 134
and mortgages 6, 133, 134, 144, 147
long-term loans, illiquid 58
low interest rates 5, 26, 133
low leakage rate 82
low margin requirements 60
macroeconomic modeling 184
macroeconomic variables 96
margin calls 45
margin loans 45
margin requirements 1, 44–5, 59, 74–5,
76, 80
low 60
market interest rates 14–15, 19, 20, 25,
130, 143
effect on currency 23
and ceilings 38, 142
decoupling 5
see also interest rates
market prices 8, 14, 33, 64, 153
Marx, K. 57
medium term interest rates 147
mergers 55
Miles, W. 54
Minsky, Hyman 16
Mises, von L. 132–3
Mishkin, F.S. 11, 65, 133
monetarism 7
Monetary Control Act (MCA) 38,
45–6, 55, 142
monetary policy 22, 96
and the Fed 130, 131, 133, 134, 143
and inflation 23
influence 26
and investment decisions 24
money base and ratio with financial
assets 62
Money Market Deposit Accounts
(MMDA) 33, 55
money market mutual funds 54
money markets 76, 77, 83
borrowings 22, 85
money multiplier analysis 86
money supply, endogeneity 16–17
mortgage interest rates 106, 122, 124,
129, 157, 173–82, 183
and the Fed rate 6, 131, 132, 133,
134, 144–52
mortgage pools, federally related 53
mortgages 27–8, 57, 136–41
and Regulation Q 38–9
MRTG see 30-year fixed mortgage rate
(MRTG)
<table>
<thead>
<tr>
<th>Term</th>
<th>Page(s)</th>
</tr>
</thead>
<tbody>
<tr>
<td>multicollinearity</td>
<td>100, 119–20, 148, 150, 171–2</td>
</tr>
<tr>
<td>Mundel-Fleming model</td>
<td>97, 147–8</td>
</tr>
<tr>
<td>mutual funds</td>
<td>54</td>
</tr>
<tr>
<td>Nadauld, T.D.</td>
<td>42</td>
</tr>
<tr>
<td>national average adjustable mortgage rate</td>
<td>145, 146, 147, 151, 174, 177, 181</td>
</tr>
<tr>
<td>national average mortgage rate</td>
<td>145, 146, 151, 174, 176, 180</td>
</tr>
<tr>
<td>NBER (National Bureau of Economics)</td>
<td>93, 145</td>
</tr>
<tr>
<td>negative credit multiplier</td>
<td>45</td>
</tr>
<tr>
<td>net worth</td>
<td>76, 80, 81, 82, 84</td>
</tr>
<tr>
<td>changes</td>
<td>77–9, 83, 85</td>
</tr>
<tr>
<td>New Consensus</td>
<td>3, 6, 7, 8, 20, 104</td>
</tr>
<tr>
<td>Newey-West procedure</td>
<td>99, 150</td>
</tr>
<tr>
<td>Niggle, C.J.</td>
<td>16–17</td>
</tr>
<tr>
<td>non-deposit/non-depository institutions</td>
<td>53, 54, 60, 76</td>
</tr>
<tr>
<td>non-interest income</td>
<td>52</td>
</tr>
<tr>
<td>non-OECD banks, debt</td>
<td>40</td>
</tr>
<tr>
<td>null hypothesis</td>
<td>98, 148</td>
</tr>
<tr>
<td>objective balance sheet constraints</td>
<td>58, 74, 75, 77, 84–5</td>
</tr>
<tr>
<td>objective funding constraint</td>
<td>74</td>
</tr>
<tr>
<td>OCC (Office of the Comptroller of the Currency)</td>
<td>30, 32, 42</td>
</tr>
<tr>
<td>OLS (Ordinary Least Squares)</td>
<td>94–5, 97–8, 99, 101, 120–24, 148, 149–50</td>
</tr>
<tr>
<td>open market operations</td>
<td>1, 18–19, 44, 48, 50, 142, 143</td>
</tr>
<tr>
<td>options</td>
<td>30, 31</td>
</tr>
<tr>
<td>“originator and seller” banking model</td>
<td>52–3</td>
</tr>
<tr>
<td>orthogonality condition</td>
<td>98, 149</td>
</tr>
<tr>
<td>OTC (over-the-counter) contracts</td>
<td>30</td>
</tr>
<tr>
<td>overnight interest rates</td>
<td>2, 3, 4, 18, 19, 20</td>
</tr>
<tr>
<td>decoupling with market prices</td>
<td>14, 64, 69–129</td>
</tr>
<tr>
<td>and long-term interest rates</td>
<td>5, 89–129</td>
</tr>
<tr>
<td>Paden, D.W.</td>
<td>7</td>
</tr>
<tr>
<td>Papademos, L.</td>
<td>15</td>
</tr>
<tr>
<td>pen-market operations</td>
<td>18</td>
</tr>
<tr>
<td>Personal Consumption Expenditure</td>
<td></td>
</tr>
<tr>
<td>(PCE) index</td>
<td>133</td>
</tr>
<tr>
<td>Phillips-Perron test statistics</td>
<td>112–13, 148–9, 158, 163</td>
</tr>
<tr>
<td>Poole, et al.</td>
<td>50</td>
</tr>
<tr>
<td>pools of funds, increasing</td>
<td>58, 77</td>
</tr>
<tr>
<td>positive credit multiplier</td>
<td>45</td>
</tr>
<tr>
<td>post-Keynesian models</td>
<td>20, 104</td>
</tr>
<tr>
<td>post-Keynesian monetary theory</td>
<td>6, 8</td>
</tr>
<tr>
<td>post-Keynesians</td>
<td>3, 73</td>
</tr>
<tr>
<td>Prasad et al.</td>
<td>35</td>
</tr>
<tr>
<td>prices</td>
<td>63–4</td>
</tr>
<tr>
<td>bonds and stocks</td>
<td>23–4</td>
</tr>
<tr>
<td>changes</td>
<td>84</td>
</tr>
<tr>
<td>competition</td>
<td>55</td>
</tr>
<tr>
<td>and financial assets</td>
<td>3</td>
</tr>
<tr>
<td>Primary Mortgage Market Survey</td>
<td>157</td>
</tr>
<tr>
<td>procyclicality in financial markets</td>
<td>65, 184</td>
</tr>
<tr>
<td>profits</td>
<td>25, 26, 57, 59, 72, 84</td>
</tr>
<tr>
<td>quantity target</td>
<td>142</td>
</tr>
<tr>
<td>Rasche, R.H.</td>
<td>34–5</td>
</tr>
<tr>
<td>ratings, high</td>
<td>59</td>
</tr>
<tr>
<td>recessions</td>
<td>94, 145</td>
</tr>
<tr>
<td>redundancy test</td>
<td>98, 149</td>
</tr>
<tr>
<td>Regulation Q</td>
<td>26, 33, 38–9, 55, 59, 142</td>
</tr>
<tr>
<td>regulatory constraints</td>
<td>74, 82</td>
</tr>
<tr>
<td>replacement cost</td>
<td>24</td>
</tr>
<tr>
<td>required capital</td>
<td>80</td>
</tr>
<tr>
<td>required credit ratings</td>
<td>60</td>
</tr>
<tr>
<td>required reserve ratios</td>
<td>1, 33, 45–6, 59, 82, 142, 143</td>
</tr>
<tr>
<td>required reserves</td>
<td>16, 33, 58, 59, 75, 79, 80, 81</td>
</tr>
<tr>
<td>reserves</td>
<td>64, 76, 79, 80, 81, 82</td>
</tr>
<tr>
<td>reshuffling assets</td>
<td>72</td>
</tr>
<tr>
<td>retained earnings</td>
<td>77, 78, 83</td>
</tr>
<tr>
<td>Riegle-Neal Interstate Banking and Branching Act</td>
<td>41, 55</td>
</tr>
<tr>
<td>risk</td>
<td>40, 130</td>
</tr>
<tr>
<td>risk premium</td>
<td>97, 147, 157</td>
</tr>
<tr>
<td>risk weighted assets</td>
<td>58, 79–80, 81</td>
</tr>
<tr>
<td>rolling regression coefficients</td>
<td>101–3</td>
</tr>
<tr>
<td>Rudebusch et al.</td>
<td>93</td>
</tr>
<tr>
<td>Sachs, Jeffrey</td>
<td>130–31</td>
</tr>
<tr>
<td>Schnabl, P.</td>
<td>28</td>
</tr>
<tr>
<td>Term</td>
<td>Pages</td>
</tr>
<tr>
<td>----------------------------------------------------------------------</td>
<td>-------</td>
</tr>
<tr>
<td>Schumpeterian theory of industrial innovation</td>
<td>57</td>
</tr>
<tr>
<td>Securities Exchange Act, 1934</td>
<td>44</td>
</tr>
<tr>
<td>securitization</td>
<td>26, 28, 29–30, 32, 41–2, 52, 58, 59</td>
</tr>
<tr>
<td>Security Exchange Commission (SEC)</td>
<td>42, 43</td>
</tr>
<tr>
<td>self-imposed cushions</td>
<td>77, 82</td>
</tr>
<tr>
<td>Sellon, G.H.</td>
<td>14–15, 38</td>
</tr>
<tr>
<td>Sherlund, S.M.</td>
<td>42</td>
</tr>
<tr>
<td>Shiller, R.J.</td>
<td>44, 135</td>
</tr>
<tr>
<td>Shin, H.S.</td>
<td>78, 144</td>
</tr>
<tr>
<td>short-term debt</td>
<td>40</td>
</tr>
<tr>
<td>short-term funds</td>
<td>22</td>
</tr>
<tr>
<td>short-term interest rates</td>
<td>18, 20, 91, 93, 133, 134</td>
</tr>
<tr>
<td>short-term market rates</td>
<td>22, 144</td>
</tr>
<tr>
<td>short-term mortgage rates</td>
<td>144, 145</td>
</tr>
<tr>
<td>speculation</td>
<td>32–3</td>
</tr>
<tr>
<td>SPVs (Special Purpose Vehicles)</td>
<td>27, 30, 40</td>
</tr>
<tr>
<td>stock prices</td>
<td>23–4, 45</td>
</tr>
<tr>
<td>subjective balance sheet constraints</td>
<td>58, 59, 77, 84–5</td>
</tr>
<tr>
<td>subsidiaries of banks</td>
<td>42</td>
</tr>
<tr>
<td>super senior</td>
<td>32</td>
</tr>
<tr>
<td>supply side developments in financial markets</td>
<td>65, 185</td>
</tr>
<tr>
<td>surplus capital</td>
<td>59</td>
</tr>
<tr>
<td>Survey of Professional Forecasters (SPF)</td>
<td>106, 157</td>
</tr>
<tr>
<td>swaps</td>
<td>30, 31–2</td>
</tr>
<tr>
<td>sweep accounts</td>
<td>26, 33–5, 58</td>
</tr>
<tr>
<td>sweep programs</td>
<td>46</td>
</tr>
<tr>
<td>Taylor, J.B.</td>
<td>23, 130, 133, 134</td>
</tr>
<tr>
<td>technological changes</td>
<td>26</td>
</tr>
<tr>
<td>Thornton, D.</td>
<td>50, 93</td>
</tr>
<tr>
<td>Tier 1 capital</td>
<td>39</td>
</tr>
<tr>
<td>Tier 2 capital</td>
<td>39</td>
</tr>
<tr>
<td>Tietmeyer, H.</td>
<td>15</td>
</tr>
<tr>
<td>time deposits</td>
<td>38</td>
</tr>
<tr>
<td>time series data</td>
<td>98, 148</td>
</tr>
<tr>
<td>Tobin, J.</td>
<td>24, 35</td>
</tr>
<tr>
<td>transmission mechanism</td>
<td>18–25, 51, 131, 185</td>
</tr>
<tr>
<td>treasury bond rate</td>
<td>121, 123, 128</td>
</tr>
<tr>
<td>trusts</td>
<td>27, 54</td>
</tr>
<tr>
<td>uncertainty</td>
<td>23</td>
</tr>
<tr>
<td>underwriting</td>
<td>55</td>
</tr>
<tr>
<td>US financial system, institutional structure</td>
<td>25–50</td>
</tr>
<tr>
<td>Vector Auto Regressive (VAR) models</td>
<td>133–4, 150</td>
</tr>
<tr>
<td>volatility</td>
<td>3, 26, 97, 184</td>
</tr>
<tr>
<td>Volcker, Paul</td>
<td>3</td>
</tr>
<tr>
<td>Warnock, F.E.</td>
<td>147, 148</td>
</tr>
<tr>
<td>Warnock, V.C.</td>
<td>147, 148</td>
</tr>
<tr>
<td>weak identification tests</td>
<td>98, 149</td>
</tr>
<tr>
<td>wealth effect channel</td>
<td>24–5</td>
</tr>
<tr>
<td>Wolf, Martin</td>
<td>133</td>
</tr>
<tr>
<td>Woodford, M.</td>
<td>2, 8, 15</td>
</tr>
<tr>
<td>Zywicki, T.</td>
<td>133</td>
</tr>
</tbody>
</table>