Monetary Policy Evaluation: A Flow-of-funds Approach

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Author: Jiyoung KIM

The flow-of-funds accounts shows the interrelations between the various institutional sectors for a nation, include overseas, in the systematic and coherent way. The flow-of-funds system adopts quadruple-entry system which proposed by Copeland (1952), that each transaction is recorded with a double entry. In this analysis, we will adopt the input-output analysis method devised by Tsujimura and Mizoshita (2003) to the flow-of-funds accounts. Applying the input-output analysis method into asset-liability-matrix (ALM) derived from the flow-of-funds accounts, Y and Y^* matrices (Asset-Liability matrix of institutional sector-by-institutional sector) are obtained. And using Leontief inverse matrix, 4 kinds of indices (the power-of-dispersion index in the liability-oriented system, the power-of-dispersion index in the asset-oriented system, and the sensitivity-of-dispersion index in the liability-oriented system, and the sensitivity-of-dispersion index in the asset-oriented system) are estimated. Furthermore, employing asset-liability-matrix (ALM), we are able to evaluate the effectiveness of monetary policy by application of Leontief inverse. The flow-of-funds accounts consists of the balance sheets of all institutional sectors in one country. By translating those balance sheets into asset-liability-matrix (ALM) that is a sector-by-sector matrix, it is possible to calculate the induced effects of the monetary operations. In this paper, we will examine each type of money-market operation using the flow-of-funds accounts of Asian countries, Korea. This paper consists of 5 chapters. The first chapter is the introduction. The second chapter describes and discusses the analysis methods and the third chapter explains data which are adopted for this analysis. The fourth chapter shows the results of our analysis, including evaluation of operations and simulations. The conclusions of this analysis are suggested in the last chapter. This study aims to examine policy evaluation methods and suggest monetary policy.