

Monetary policy evaluation using international financial input-output table for the United States, Euro area and Japan.

Topic: Input-Output Theory and Methodology - IV

Author: Jiyoung KIM

Co-Authors: Satoru Hagino

This study evaluates the authorities' monetary policies on a "from-whom-to-whom" basis for international flow-of-funds tables and using the input-output (IO) analysis method. In general, the central bank decides on its monetary policy in order to achieve sustainable economic growth, while maintaining the value of the currency. This is managed by the amount of money, interest rate, price, and so on. For example, the Federal Reserve conducts the nation's monetary policy to promote maximum employment, stable prices, and moderate long-term interest rates in the United State economy. The U.S. economy has played a major role in globalization due to the petro-dollar (the U.S. dollar) being the world's reserve currency for well over 70 years. Therefore, not only for the domestic economy, but also the world economy can be affected by monetary policy of the U.S.

In this paper, we analyze how the monetary policies of the U.S. influences domestic sectors and foreign countries. For this purpose, we compile "from-whom-to-whom" financial stock tables for the U.S., Euro area and Japan, and combine these tables to generate a three-area international "from-whom-to-whom" financial stock table (in other words, international financial IO table). In order to analyze the monetary policies of the central bank, net induced investments and net induced savings are calculated and decomposed applying IO analysis method.

Some previous researches have constructed and analyzed international flows of funds. For example, Tsujimura and Tsujimura (2008, 2009, 2010, 2011) constructed tables for financial transactions among multiple countries. Zhang (2005, 2009, 2015), Zhang and Zhao (2019), Hagino and Kim (2021) built global flow of funds models comprising the financial instruments of major countries. Schumacher (2019) analyzed intercountry credit and savings to evaluate the effects of credit defaults. However, its analyzing methods are not sufficiently developed yet. This research will contribute to expand applications for the international financial IO table.