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# IMF Working Paper

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## Financial Frictions in Data: Evidence and Impact

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## **IMF Working Paper**

European Department

### **Financial Friction in Data: Evidence and Impact**

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### **Abstract**

This paper investigates financial frictions in US postwar data to understand the interaction between the real business cycle and the credit market. A Bayesian estimation technique is used to estimate a large Vector Autoregression and New Keynesian models demonstrating how financial shocks can have a large and sluggish impact on the economy. I identify the default risk and the maturity mismatch channels of monetary policy transmission; I further employ a generalized-IRF to establish countercyclicality of risk spreads; and I show that the maturity mismatch shocks produce a stronger impact than the default risk shocks.

JEL Classification Numbers: C11, C51, E32, E44, E52

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