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Monetary policy transmission in a model with animal spirits and house price booms and busts. (English) [Zbl 1402.91410](#)

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Summary: Can monetary policy trigger pronounced boom-bust cycles in house prices and create persistent business cycles? We address this question by building heuristics into an otherwise standard DSGE model. As a result, monetary policy sets off waves of optimism and pessimism (“animal spirits”) that drive house prices, that, in turn, have strong repercussions on the business cycle. We compare our findings to a standard model with rational expectations by means of impulse responses. We suggest that a standard Taylor rule is not well-suited to maintain macroeconomic stability. Instead, an augmented rule that incorporates house prices is shown to be superior.

MSC:

[91B64](#) Macroeconomic theory (monetary models, models of taxation)

[91B62](#) Economic growth models

Keywords:

[monetary policy](#); [animal spirits](#); [housing markets](#)

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