

ABSTRACT

Previous economic analyses of the financial sector of Jamaica leave much to be desired in terms of rigour as well as in terms of breadth of treatment. This study attempts to advance previous work by providing a relatively detailed econometric treatment of the monetary sector. It has four major objectives, namely (1) the investigation of linkages between the financial and real sectors, (2) the clarification of the monetary policy transmission mechanism, (3) an endogeneous treatment of Central Bank instrument determination, and (4) the delimitation of the scope for monetary policy.

Explicit utility-maximising models are utilised throughout the study. In most cases, the models are intertemporal. The study highlights the role of uncertainty in the decision process of firms, commercial banks and households. Though, as a result of statistical theorem employed, the variances of probability distributed variables do not enter into the demand functions for assets and liabilities. The statistical analysis is based on quarterly data for the years 1961(1) to 1971(4). Policy simulations were conducted with a view to forming judgements about the effects of low Bank Rate and selective credit control policies.

Empirical results confirm the central role of Jamaica Bank Rate in determining commercial banks' rates of interest. It is shown however that interest rate policies are more significant on a sectoral basis than for global economic activity. Selective credit controls appear to be more meaningful, and furthermore are more consistent with the monetary authority's expressed objectives.