



# Research impact

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## Improving monetary policy

Research by the Centre for Finance, Credit and Macroeconomics (CFCM) has helped improve the design and implementation of central banks' monetary policies, including those of the Bank of England and the European Central Bank.

The effectiveness of the monetary transmission mechanism (MTM) depends on a thorough grasp of many complex factors. These include the importance of money and credit in determining output and inflation.

"I first embarked on this particular strand of research in 1997, five years after I joined the faculty," says Paul Mizen, now a Professor of Monetary Economics. "The Bank of England's Monetary Policy Committee knew of my previous work in the field and asked me to help develop a better understanding of the MTM."

Professor Mizen's studies on money and credit proved highly significant in explaining key interactions within the MTM. For the first time the Bank of England could be confident that excess money and credit balances held by some non-bank financial institutions should be treated the same as assets and liabilities held by banks. The MPC had previously ignored non-bank financial

institutions in its analyses, which could have led to it understating growth in money and credit aggregates.

The Bank of England has since cited the research as a major contribution to understanding the MTM. The beneficiaries have included commercial investment banks, insurance companies, pension funds and private non-financial corporations. The work was also crucial in gauging the introduction and use of quantitative easing in the wake of the global financial crisis.

"Our findings have helped enable central banks to better control their policy targets and, just as importantly, to better understand the effects of their policies," says Professor Mizen. "Given that the financial crisis has reminded us all of the centrality of money and banking to macroeconomic conditions, the insights have proved especially timely."

**CFCM's research on interest-rate pass-through – that is, how policy decisions affect the interest rates offered to households and firms – has been influential across Europe. The Bank of England, Germany's Bundesbank, the Banque de France and the European Central Bank are among the institutions that have drawn on this work. The Banque de France has described it as having "a great impact on our understanding of this aspect of the monetary transmission mechanism".**

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## Paul Mizen

Professor of Monetary Economics

“There could hardly be a more interesting area of economics right now than monetary economics and central banking. Central banks have used up all their conventional weapons in the fight against inflation – short-term interest rates are near zero – and are turning to unconventional means to loosen monetary policy further. Opinion is divided as to whether this is a clever move that will re-start the world economy or a dangerous step that will unleash inflation further down the road. My research considers some of the consequences of these actions for firms and households. The financial crisis, the policy response, the banks’ reaction – these are matters that affect everyone.”

**[paul.mizen@nottingham.ac.uk](mailto:paul.mizen@nottingham.ac.uk)**

### World-leading research

The research carried out at the School of Economics is regularly acknowledged as among the most significant of its kind in the world. It is also among the most influential.

Research can help boost economic competitiveness, improve the effectiveness of public services and policy and enhance quality of life. We have made important contributions in all of these areas through the work of our research centres.

- Centre for Decision Research and Experimental Economics
- Centre for Finance, Credit and Macroeconomics
- Centre for Research in Economic Development and International Trade
- Nottingham Centre for Research on Globalisation and Economic Policy
- Granger Centre for Time Series Econometrics
- Network for Integrated Behavioural Science
- Nottingham Interdisciplinary Centre for Economic and Political Research