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Autore	Aziz Jahangir
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Monetary economics
Monetary Policy, Central Banking, and the Supply of Money and Credit:
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Nota di contenuto	Contents; I. Introduction; II. China and India's Recent Growth Experience; III. China and India's Economy as a Neoclassical Growth Model; Figures; 1. China and India: GDP Growth Rate; 2. Changes in GDP Components: 1990-2005; IV. Calibrating the Growth Model; 3. China: Growth Accounting; 4. China and India: Labor Productivity; 5. India: Growth Accounting; V. Semulating the Solow Growth Model; 6. China: Simulation with Efficiency Wedge; 7. China Simulation with Efficiency and Government Wedges; 8. India: Simulation with Efficiency and Government Wedges; VI. Investment Wedge 9. China: Derived Investment Wedge 10. India: Derived Investment Wedge; 11. China: Simulation with Efficiency, Government and Investment Wedges; 12. India: Simulation with Efficiency, Government and Investment Wedges; VII. Interpreting Investment Wedges as Financial Frictions; A. China's Nonperforming Loans; 13. China: Derived Cumulative Capital Wedge; 14. China: Average Effective Tax Rate; Table; 1. China: Official Estimate of NPLs Created at End-2004; B. Borrowing Constraints and Bank Reform in China; 15. China: Domestic Savings by Sectors; 16. China: Short-Term Bank Loan 17. China: Simulation with Borrowing Constraint C. Self-Insurance Against Administrative Controls; D. Financial Sector Reforms in India; 18. Effective Gross Capital Income Tax Rate; 19. India: CRR and SLR; 20. India: Domestic Savings; 21. India: Simulation with SLR; VIII. Conclusions; 22. India: Simulation with SLR and CRR; 23. India: Simulating Policy Change; 24. China: Simulating Policy Change; References
Sommario/riassunto	In the spirit of what is known as business cycle accounting, this paper finds that the investment wedge-the gap between household's rate of intertemporal substitution and the marginal product of capital-is large and quantitatively significant in explaining China's and India's growth. Specific financial sector policies are shown to map well the size and changes in the investment wedge. In the case of China, nonperforming loans, borrowing constraints, and uncertainty over changes in government guidance in bank lending, have implied large transfers from households to firms that have kept capital cost low and

encouraged investment. In the case of India, post-1992 financial sector reforms, particularly the reduction in the funds preempted by the government from the banking system, has played an important role in reducing the cost of capital. Simulations show that for rebalancing growth in China and sustaining high investment rate in India, further financial sector reforms could turn out to be key.
