Accepted Manuscript

Near-Money Premiums, Monetary Policy, and the Integration of Money Markets: Lessons from Deregulation

Mark Carlson , David C. Wheelock

PII: S1042-9573(16)30041-9
DOI: 10.1016/j.jfi.2016.09.001
Reference: YJFIN 733

To appear in: *Journal of Financial Intermediation*

Received date: 12 July 2016
Revised date: 6 September 2016
Accepted date: 11 September 2016

Please cite this article as: Mark Carlson , David C. Wheelock , Near-Money Premiums, Monetary Policy, and the Integration of Money Markets: Lessons from Deregulation, *Journal of Financial Intermediation* (2016), doi: 10.1016/j.jfi.2016.09.001

Near-Money Premiums, Monetary Policy, and the Integration of Money Markets: Lessons from Deregulation

Mark Carlson[a]
Board of Governors of the Federal Reserve and Bank for International Settlements

David C. Wheelock[b]
Federal Reserve Bank of St. Louis*

[a] Corresponding author. Mark.A.Carlson@frb.gov. Board of Governors of the Federal Reserve; 20th Street and Constitution Avenue; Washington DC, 20551; United States.
[b] David.C.Wheelock@stls.frb.org. Federal Reserve Bank of St. Louis; P.O. Box 442; St. Louis, MO 63166-0442; United States.
* This research did not receive any specific grant from funding agencies in the public, commercial, or not-for-profit sectors. We are grateful for valuable comments from Ingo Fender, Robert McCauley, Patrick McGuire, Christopher Neely, Andreas Schrimpf, Jeremy Stein, the editors (Murillo Campello and Charles Calomiris), and an anonymous referee. The views expressed in this paper are solely those of the authors and do not necessarily reflect those of the Bank for International Settlements, the Federal Reserve Bank of St. Louis, the Board of Governors of the Federal Reserve System, or their staffs.

The 1960s and 1970s witnessed rapid growth in the markets for new money market instruments, such as negotiable certificates of deposit (CDs) and Eurodollar deposits, as banks and investors sought ways around various regulations affecting funding markets. In this paper, we investigate the impacts of the deregulation and integration of the money markets. We find that the pricing and volume of negotiable CDs and Eurodollars issued were influenced by the availability of other short-term safe assets, especially Treasury bills. Banks appear to have issued these money market instruments as substitutes for other types of funding. The integration of money markets and ability of banks to raise funds using a greater variety of substitutable instruments has implications for monetary policy. We find that, when deregulation reduced money market segmentation, larger open market operations were required to produce a given change in the federal funds rate, but that the pass through of changes in the funds rate to other market rates was also greater.

Draft: August 2016

Keywords: money markets; deregulation; market integration; monetary policy; Eurodollars; Regulation Q

JEL classifications: E50, G18, N22