

The Optimal Basel Capital Requirement to Cope with Pro-cyclicality: A Theoretical Approach

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Abstract

This paper investigates the capital requirement which stabilizes bank loans by developing a simple general equilibrium model. We find that the minimum capital requirement should depend upon various macroeconomic variables such as land prices, stock prices, GDP, and the interest rate. We also provide numerical examples by using the Japanese data.

Keywords: The Basel minimum capital requirement, Counter cyclicity of capital adequacy ratio, Optimal capital requirement

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