

HOW MONETARY POLICY INFLUENCES THE LENDING TO SMALL BUSINESS:
AN EMPIRICAL STUDY ON RELATIONSHIP BANKING USING A KOREAN BANK
DATA SET

Jae Ryung Choi

Dr. Shawn Ni, Dissertation Supervisor

ABSTRACT

This study examines the influence of the monetary policy on bank lending to small business in Korea using a unique loan panel data set of firms. We analyze the dynamics of monetary policy transmission in an environment of relationship banking. We find that as the monetary policy changes, the credit ratings of borrowing firms and the types of firms receiving loans change significantly. We explore determinants of a firm's ability in obtaining loans. The main finding is that following a monetary tightening, large firms and firms with collaterals are more likely to obtain loans. Controlling for the size of the borrowing firms we do not find strong evidence of "flight to quality" during a monetary tightening. Also we apply Bayesian Theorem in order to calculate the probability of getting loans under different monetary policy with different firm characteristics with a simple theoretical model.