

	“Bare bone” NK Model	I Theory
Friction	Price/Wage stickiness	Financial friction
Money/Interest	Interest rate prime focus (moneyless economy)	Endogenous inside money creation (by financial sector)
Instruments	Interest rate & QE	Interaction with MacroPru - Complements - Substitutes
Rule	$i_t = \pi_t + r_t^* + \lambda(y_t - y^*) + \alpha(\pi_t - \pi^*)$ <p>coefficients of Taylor rule are constant/stable</p>	$\begin{pmatrix} i_t \\ capital_t \\ liquidity_t \\ \dots \end{pmatrix} = F \begin{pmatrix} y_t - y^* \\ \pi_t - \pi^* \\ VaR_t[y_{t+\tau}] \\ \{LM\}^{sector} \\ \dots \end{pmatrix}$ <p>Possibly unstable coefficients and nonlinearities to capture substitutability/complementarity</p>
Long-term interest rate	Expectations hypothesis	Term risk premia (time varying)