



ELSEVIER

Available online at www.sciencedirect.com

SCIENCE @ DIRECT®

Journal of Comparative Economics 33 (2005) 441–461

Journal of
COMPARATIVE
ECONOMICS

www.elsevier.com/locate/jce

Does money matter in the CIS? Effects of monetary policy on output and prices

Martha A. Starr

American University, 4400 Massachusetts Avenue NW, Washington, DC 20016

Received 17 March 2005; revised 27 May 2005

Available online 29 June 2005

Starr, Martha A.—Does money matter in the CIS? Effects of monetary policy on output and prices

In large industrial economies, changes in monetary policy affect real economic activity in the short run but only prices in the long run. In transition economies, the question of whether monetary-policy variables affect output in the short run is open. In this paper, we examine the real effects of monetary policy in Russia, Ukraine, Belarus, and Kazakhstan using time-series methods. We find mixed evidence that money matters in these countries, although the effects are greater in Russia. Hence, we conclude that activist monetary policy will have only a limited scope in these countries in the near term. *Journal of Comparative Economics* 33 (3) (2005) 441–461. American University, 4400 Massachusetts Avenue NW, Washington, DC 20016.

© 2005 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

JEL classification: P240; E500; E300

Keywords: Monetary policy; Output effects; CIS; Transition economies

1. Introduction

In recent years, the benefits of shifting from traditional discretionary monetary policy to arrangements that favor commitment to price stability and international economic integra-

E-mail address: mstarr@american.edu.

0147-5967/\$ – see front matter © 2005 Association for Comparative Economic Studies. Published by Elsevier Inc. All rights reserved.

[doi:10.1016/j.jce.2005.05.006](https://doi.org/10.1016/j.jce.2005.05.006)

tion, e.g., inflation targeting, monetary unions, currency boards, or dollarization, have been discussed widely. An advantage of discretionary policy is that the monetary authority can use policy instruments to offset adverse shocks to output by pursuing expansionary policy when output is below its potential and contractionary policy when output is above its potential. For example, a policy-controlled interest rate can be lowered to reduce commercial interest rates and stimulate aggregate spending in the below-potential situation. In addition, the liquidity of the banking system can be increased in an attempt to increase bank lending and again stimulate spending. Alternatively, a monetary expansion that lowers the real exchange-rate may improve the competitiveness of the country's products in domestic and world markets and, thereby, boost demand for national output. In principle, countercyclical monetary policy can also be practiced with inflation targeting, although such a policy must be flexible rather than strict, as Ghironi and Rebucci (2000) and Mishkin (2002) argue. However, non-traditional policy regimes limit the ability of the monetary authorities to use policy to offset output fluctuations.

The extent to which a given country can use monetary policy to affect output in the short run is an open question. Consensus findings for the US indicate that a decline in the key interest rate controlled by the Federal Reserve tends to boost output over the next two to three years, but the effect dissipates thereafter so that the long-run effect is confined to prices only, as Christiano et al. (1999) report. Debates remain about precisely what factor or combination of factors account for this real effect, with the lead candidates being sticky prices, sticky wages, and imperfect competition.¹ This evidence of real effects in a mature developed economy is supportive of the idea that monetary policy can be used to counter aggregate shocks.

In other economies, the potential for using policy in this manner is less clear. In countries that have experienced high inflation or in which labor markets are chronically slack, prices and wages are unlikely to be particularly sticky so that monetary-policy changes may pass quickly through to prices and have little real effect, as Gagnon and Ihrig (2004) demonstrate. In addition, Barro and Gordon (1983) and Kydland and Prescott (1977) argue that, if monetary policy is not credible, the public's understanding of the government's incentives to enact monetary surprises undermines the scope for using such surprises to boost output and raises average inflation instead. Moreover, the globalization of financial markets may erode the ability of small, open economies to determine interest rates independently of world markets, which further undercuts the potential value of independent policy, as Dornbusch (2001) and Frankel et al. (2004) discuss.

Several studies investigate whether the short-run effects of monetary policy on output in other countries are similar to those in the United States.² Hayo (1999) studies the money–output relation in seventeen industrialized countries using Granger-causality tests; he finds considerable variation in results across both countries and time periods and by model specification. In a study of twelve middle-income developing countries, Agenor et al. (2000) find no evidence of Granger-causality from money to output, regardless of the measure of

¹ Walsh (2003) provides a general discussion, and Grilli and Roubini (1996) present models in which money is non-neutral due to liquidity effects in open economies.

² As Barro and Gordon (1996) and Bullard and Keating (1997) argue, the long-run neutrality of money, at least when inflation is neither very high nor very low, is an accepted result.

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات