

Modeling Multiple Regimes in Iranian Business Cycle: A Dynamic Approach

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Abstract:

The purpose of this study is to investigate the asymmetric effects of monetary policy on business cycles through transmission mechanisms in the Iranian Economy. To this aim, using the nonlinear approach of Multiple Regime Smooth Transition Autoregressive Model and logistic transmission function among transmission mechanisms, interest rate variables of one-year investment deposit, and concessional facility balance with two intervals are selected. To estimate the nonlinear MRSTAR model, the nonlinear Least Square method and Newton-Raphson algorithm are used. The result of this study shows that monetary policy on business cycles is conducted through asymmetric transmission mechanism and the estimation of nonlinear MRSTAR model with regard to threshold values of two variables indicates four-state transfer in business cycles of Iranian economy. Moreover, it shows the generalized momentum response functions of a time-dependent and status-dependent feature.

JEL classification: C10, E60, E32

Keywords: Monetary Policy; Business Cycle; Transmission Mechanism; Multiple Regime Smooth Transition Autoregressive

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