

Analysis of the Effects of Investors' Confidence on the monetary policy Transmission Mechanism and the Economic Growth without Crude Oil Export: A Multivariate GARCH Approach

Abolfazl Shahabadi,¹ Mahdi Jafari,² Razieh Davarikish³

Received: 2018/8/26

Accepted: 2019/6/17

Abstract:

Analyzing the effects of investor confidence on the mechanism of monetary policy transition and economic growth without Crude oil exports in Iran: The MGARCH approach is an important factor of the capital market and the investors. The main goal of every investor is, thus, to launch their investment in order to get a maximum profit from the output of their investment. To encourage the investors to invest in the financial assets, these sorts of assets must be greater than the other options (Mehrani & Bahramfar, 2004). The implementation of efficient market economy theory, which has received considerable attention by governors in the recent years, has been able to partially increase the capital market's share of money in financing firms. In effect, the qualitative and quantitative development of the capital market and the Islamic financial affairs as the main sources of financing in the last two decades, the formulation of the accounting and auditing standards required for the economic entities and other corrective actions have turned the exchange markets to one of the best options for the investment. According to the latest statistics, more than ten million Iranians are investing part of their resources in the exchange market. Therefore, this study was intended to investigate the effect of financial sustainability on monetary policy transfer mechanisms. In effect, the correlation between investor confidence in the markets, money growth and macroeconomic growth without oil was, indeed, analyzed along with their fluctuations.

¹ Professor, Faculty of Social Sciences and Economics, Alzahra University, Tehran, Iran.

² Assistant Professor of Tolou-e-Mehr Non-Profit Institute of Higher Education, Qom, Iran. (Responsible Author) (mahdi.jfr@gmail.com)

³ Ph.D Student in Public economics, Faculty of Economics and Social Sciences, Bu-Ali Sina University, Hamadan, Iran.

The practical research in the developed markets has shown that the change in macroeconomic variables, stock prices will also change, therefore it is expected that there is a strong relationship between the stock prices and macroeconomic variables. The stock price index is, indeed, the most important factor influencing investor decision making in the stock market; therefore, we need to be aware of the factors influencing stock prices. The process of monetary policy transfer begins from the asset market because the cost of information and transaction for the most assets are lower than the costs of changing the production or adjusting the consumption or investment of durable goods, especially when there is uncertainty about policies whether they are permanent or temporary.

As the asset market responds very quickly, therefore assets prices play an important role in the money transfer mechanism. Using the MGARCH estimator, this study investigated the relationship between investors' confidence ratios, real money growth, and economic activity without crude oil exports and their fluctuations.

Using this estimator enables the estimation of uncertainties so as to achieve perfectly consistent criteria. In this study, the PEG index of price-earnings to earnings growth for a variable of investor confidence, which is a better indicator than PE, was calculated. It should be considered that the potential growth of the companies can reflect the life of the investors as it uses several revenue generating factors such as brand, human capital and expectations and barriers to entry.

Thus, this study investigated the effect of financial sustainability on the monetary policy transfer mechanisms in Iran. Indeed, the correlation between investor confidence in markets, money growth and economic growth, without Iranian crude exports, was analyzed alongside their volatilities. In particular, the heterogeneity of error variances in an MGARCH framework was used to obtain the estimated uncertainty criteria.

In this paper, seasonal data and the variables from the beginning of 1991 to the end of 2016 were considered. The results showed that there was a positive correlation between macroeconomic volatility without oil and PEG investor confidence.

The results showed that M2 cash flow fluctuation negatively affected PEG. The results also indicated a bilateral Grange impact between macroeconomic volatility without crude oil exports and liquidity volume.

The other results of the study are as follows:

Monetary policy can only directly affect investor confidence and its fluctuations in a long term. There is no significant Granger relationship between macroeconomic without oil and GDP growth.

- The results showed the negative impact of macroeconomic uncertainty on oil noilGDP growth and the cause of the negative effect between production growth and its medium- and long-term volatility.

- If monetary policy can directly control the capital market and its sustainability, given the correlation between the noilGDP and its fluctuations, the production consolidation and asset prices seem to be sufficient goals. Obviously, having a smooth economic cycle can relatively stabilize the market.

However, the analysis showed the importance of monetary policy, which reflects the strong negative correlation between currency fluctuations and macroeconomic stability without oil and assets.

JEL classification: D81, E44, E52, G11

Keywords: Monetary Policy, Uncertainty, Investors' Confidence Ration, GARCH Estimate

