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### Investigating the Cyclical Status of Monetary, Financial Policies in Iran

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## EXTENDED ABSTRACT

### INTRODUCTION

Regardless of different theoretical views regarding the impact of monetary policies on the economy, these policies are currently considered tools to influence variables and the structure of the economy. The main objectives of implementing such economic policies, similar to other policy instruments, are to control adverse economic fluctuations, establish relative stability in price levels, and maintain production within its optimal path. With such goals in mind, it is clear that following the detection of any adverse economic fluctuation, monetary instruments are one of the options available to policymakers to control such fluctuations.

On the other hand, academic literature on monetary policies and the difference in adopting monetary instruments in response to business cycles disregard the distinction among countries (for instance based on their level of development etc.). The accepted advice in the economic literature is that countries should adopt counter-cyclical monetary policies. In other words, in times of economic prosperity, it is recommended that monetary authorities eliminate inflation by increasing interest rates and reducing interest rates in times of economic recession to stimulate production to return to its sustainable path. This recommendation is attributed to the study by Wexel (1907). Despite all the developments in the field of monetary theories in the last century, this recommendation has remained unchallenged and was part of Chicago's plan that emerged from the Great Depression of 1933. Keynesian IS and LM models support counter-cyclical monetary policies. However, Fisher (1977) and Phelps and Taylor (1977) (in the presence of rational expectation), along with Keynesians Woodford (2001) and Giannoni and

Woodford (2002), opposed monetary policies as a cycle to stabilize an active economy and recommend it.

### **METHODOLOGY**

Note that this emphatic policy recommendation does not consider any specific classification among countries. However, there is evidence that countries have adopted monetary instruments differently in response to similar business cycles, depending on their level of development (or other economic indicators). In other words, there are a number of empirical studies indicating that in the presence of business cycles, developed countries have implemented counter-cyclical (or often cycle-independent) monetary policies, while developing ones have adopted this approach and implemented pro-cyclical monetary policies.

In this regard, the present study investigates the cyclical situation of monetary and fiscal policies in Iran. To achieve this goal, a structural vector autoregression (SVAR) model with three variables has been estimated using data derived from 1352 to 1396.

### **FINDINGS**

The results of the study show that correlation coefficient between fiscal and monetary structural movements are very low and approximated to zero. T test show that none of these coefficients had any statistical difference with zero. These findings show that proxies (instruments) for fiscal and monetary policy in Iran are changing independent of business cycles.

### **CONCLUSION**

The results from model estimation confirm that monetary and fiscal policies in Iran demonstrate a behavior independent of the cycles. The results also show that these policies, despite the independent nature of the cycle, have the potential for economic stabilization.

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