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The Effect of cross-over effect of positive and negative monetary regimes on the incomplete and asymmetric Degree of Exchange Rate Pass-Through with: NARDL and Markov-switching Method

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EXTENDED ABSTRACT

INTRODUCTION

Exchange rate pass-through and factors affecting on that measures extent and degree of impact on prices of through the exchange rate.in the literature, two channels for the exchange rate pass-throught distinguished: the direct channel and the indirect channel. Of the factors affecting the degree of exchange rate pass-through, monetary shocks can be point. Monetary base change in iran are very frequency and this frequency leads to price index and exchange rate volatility.

METHODOLOGY

The main objective of this study, is to investigate the effects of monetary regimes on exchange rate pass-through in Iran during 1986-2017. For this purpose, first are extracted by using Markov-switching method monetary supply regimes. Based on the results of the money supply behavior model, it was divided in to two regimes, the first regime being the positive money supply regime and the second regime the negative money supply regime. Then by defining two virtual variablesfor each of the monetary regimes, the cross-over effect of these variables along with variables such as the Degree of Commercial liberalization, oil prices and positive and negative exchange rate shocks using the nonlinear autoregressive distribution lag (NARDL) method on consumer price index in the short run and long run has been studied. nonlinear autoregressive distribution lag (NARDL) method which gives more merits over linear ARDL approach.

FINDINGS

Since in recent years, many economic and political factors have caused the exchange rate to undergo many changes that were not necessarily directional, considering the symmetrical effects of non-directional exchange rate changes has led to a shift in recognizing the effects of these different changes on others. Becomes macroeconomic variables. The present study provides a more accurate explanation of the short run and long run effects of exchange rate shocks on the consumer price index in iran by separating the positive and negative exchange rate shocks using the nonlinear autoregressive distribution lag (NARDL) method.

CONCLUSION

The empirical results study showed in economics of Iran degree of exchange rate pass-through on consumer price index in short run and long run is incomplete and asymmetric. Also pasitive and negative monetary regimes in short run and long run have asymmetric effect on degree of exchange rate pass-through on consumer price index . Positive monetary regimes in short run and long run have positive and significant effect on degree of exchange rate pass-through consumer price index, negative monetary regimes in short run with one interruptions negative and significant effect and in long run have been a negative and significant effect on this. Also variable Degree of Commercial liberalization in short run and long run have a negative and significant impact on degree of exchange rate pass-through consumer price index and oil price variable have a positive and significant impact on degree of exchange rate pass-through consumer price index.

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