

Nonlinear Correlation between Business Cycles and Monetary Policy in Iranian Economy

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Abstract

Monetary policy opposed to business cycle is a policy that economists propose to reduce economic volatility. The purpose of this paper is to investigate the nonlinear correlation between business cycle and monetary policy in Iranian economy. For this purpose, statistical data of the period 1368-1397 were used based on the frequency of seasonal data. The approach used in this paper is to use the Cristiano-FiltersGeral (CF) pass-through filter to derive the business cycle, use the Kalman filter to estimate the target inflation rate, and the Markov Switching (MS) method to estimate the monetary response function over the period. The trade was in the gap of production and inflation. The results of this study indicate that the monetary policy maker's reaction to the output gap and inflation was negative and significant, but the intensity of the reaction was quite different during the boom and stagnation period, indicating a nonlinear relationship between economic variables during the business cycle and Monetary policy has been in the Iranian economy.

Keywords: Monetary Policy, Business Cycles, Output Gap, Inflation, Cristiano-Filzgerald (CF) Pass Filter, Markov Switching Method (MS).

JEL Classification: E52, E32, P24, E31, C24.

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