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The Investigate Effect of Permanent and Temporary Exchange Rate Shocks on Output Gap in IRAN Economy with Used Structural Vector Autoregressive Model (Blanchard and Quah Technique)

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Abstract

Measurement and investigate most important factors effective on output gap has important role in identification of disturbances economy and used as measure in the proper economic planning. The aim of this study investigate of permanent and temporary exchange rate shocks on output gap in IRAN economy in during of 1974 until 2017.In the first calculated output gap withwith use Hodrick– Prescott filter and then investigated effect of permanent and temporary exchange rate shocks on output gap in IRAN economy with use a Structural Vector Autoregressive Model. We used Blanchard and Quah Technique for decomposition of exchange rate shock to permanent and temporary. The results show that the temporary exchange rate shock has a short-run effect on the output gap and effects continue for four periods and then immediate effects vanish and only cumulative effects continue in the long run. Permanent exchange rate shock in the short run has negative effects on output gap and in the long run accumulated response has a positive effect. Also results of

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variance decomposition of output gap in the short run show that the temporary exchange rate shock has a major role and in the long run permanent exchange rate shock has dominant role in created of fluctuation of output gap.

Keywords: output gap, exchange rate shock, Blanchard and Quah Technique, SVAR.

JEL Classification: F31, F43, O2.

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