

Nonlinear Effects of Money Supply on Real Exchange Rates with Emphasis on Interest Rates and Inflation in Iran

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Abstract

There have been many studies on the effects of monetary policy on the exchange rate in the Iranian economy. But due to the successive structural changes and changes in the political regime, these effects are not expected to be linear and stable. Therefore, in this study, we want to examine the effect of nonlinear behavior of variable money volume on exchange rate by using STR regression models. For this purpose, we have used the annual data of the variables of GDP, interest rate, inflation rate, money supply and exchange rate during the period 1357-1397. Research shows that a significant nonlinear relationship between money supply and exchange rate is confirmed. Based on the results, the variables of money supply and inflation rate have had a significant negative and positive effect on the real exchange rate, respectively, during the study period. By controlling liquidity growth and transferring it to a low growth regime, the effect of variables such as inflation and interest rates on the exchange rate can be eliminated or reduced. According to the results of this article, at lower threshold levels of money supply, it is possible to use monetary policy to stimulate economic growth and real sector activities with low inflationary effects.

Keywords: STR econometric approach, exchange rate, money supply, interest rate, inflation.

JEL Classification: E31, E51, C24.

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