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Monetary Policy Effects: A Distributed Lags Approach

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Abstract

This paper analyses monetary lags using a distributed lag approach. The detrended and deseasonalised M1, M3, IIP and WPI series are considered and effects of M1 or M3 on other variables and vice versa are analysed. The paper hypothesises a gradual regime change and structural breaks in April 1991 and April 1997. This is analysed by a modified dummy variable approach. The inside and outside lags for M1 for IIP are 21 and 10 months before the reforms, but 3 and 7 months after WMA came into effect. For WPI, the outside lag is longer and weaker after reforms while inside lag is not discernible.For M3 the inside and outside lags w.r.t. IIP are 26 and 9 months before the reforms. After WMA, inside lag is 10 months but there is no outside lag. In the post-regime change period the outside lag w.r.t. WPI is 4 months.

Keywords: M1, M3, IIP, WPI, WMA

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