The analysis of transmission mechanism of monetary policy in CR using VAR models

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Abstract: This paper focuses on transmission mechanism of monetary policy as a process through which central banks decisions affect the economy in general – especially the inflation and economic growth. Attention is also paid to historical evolution in application of different monetary policy rules by central banks all over the world (especially the Czech central bank). The econometric part of this study deals with dynamic macroeconomic analysis of transmission mechanism in the Czech economy as a small open economy using VAR models (vector autoregression models) – concretely a three-variable dynamic model estimated on real Czech data (the key macroeconomic indicators of inflation targeting). In connection with VAR models, Granger causality and impulse response functions are introduced as they are crucial for analysing and anticipating effects of macroeconomic stabilisation policy. In the final part there is a forecast based on the chosen VAR model - the ex post forecast to compare with the real data and the ex ante forecast. The applicability of chosen econometric concept for modelling in the field of the Czech monetary policy is discussed.

Keywords: Granger causality, inflation, impulse response functions, monetary policy, transmission mechanism, VAR model

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