

A Meta-analysis on the impacts of monetary policy on aggregate demand and price level in emerging and developing countries

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Abstract (302 words):

A large number of the studies employ vector-autoregressive (VAR) models to examine the impacts of monetary policy in individual developing and emerging countries. These studies have shown the heterogeneity in the effect sizes, yet no empirical research has been conducted to investigate the genuine effects and explain the heterogeneity. This paper aims to fill this gap by a meta-regression analysis (MRA) method to synthesize the effects, test for the presence of publication bias and find out the “true” underlying effects.

Primary studies and dataset: To ensure that the effects of monetary policy reported in different primary studies are comparable, our meta-analysis is restricted to existing studies that employ VAR models and focus on impulse responses of aggregate demand and/or price level to shocks from interest rate. The magnitude of the shock is one percentage point increase or equivalent. We included in our meta-analysis 41 primary studies that report the output responses and 35 primary studies that report that price level’s responses. These studies cover 32 emerging and developing countries in different regions in the world.

Method: We apply meta-analysis techniques to calculate the overall effects and test for publication bias and “true” underlying effects. After that, meta-regressions are employed to explain the heterogeneity in the response of economic activities among countries and among studies.

Outcomes and findings: The majority of the primary studies report the impacts of a 1% shock from monetary policy with a decline to some extent in output and price level. But the empirical-based evidences from meta-regression analyses indicate that the reported effects in the primary studies have been affected by the publication bias. The “true” underlying effects after being corrected for the publication bias are either insignificant or relatively small. The findings help to deepen the understanding on the effect of monetary policy in developing and emerging countries.