

The Nexus among Monetary Policies across Countries

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Abstract:

This study examines the nexus that may exist between monetary policies across countries. Its aim is to reveal the nexus using the short run shadow interest rates (SIR) or implicit, monetary policy rates of the United States, the European area, the United Kingdom and Japan. The reasons for the shadow interest rates tend to follow suit are the following. The first is the existence of a common shock, such as global factors that shape trend growth and interest rates. The second is the desire of policy makers to maintain the exchange rate and the third one is the spillover effects due to trade and capital flows. The shadow interest rate data are based on the calculation of Krippner (2012a, b, c) and the Wu-Xia (2016). These interest rates used as measures of monetary policy stance are useful, especially if conventional monetary policy rates are close zero lower band. Since various unit root tests used in this study disclose the fact that the SIR series are $I(1)$, we use various econometric techniques to reveal the nexus between the SIR series.

Keywords: Shadow Interest rates Time series Monetary policy

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