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The changing international transmission of us monetary policy shocks: is there evidence of contagion effect on oecd countries

Irfan akbar Kazi
UNIVERSITY PARIS WEST, NANTERRE LA DEFENCE

Hakimzadi Wagan
UMR 8174 - CES - Centre d'économie de la Sorbonne, Pantheon Sorbonne - Paris University 1

Farhan Akbar
UMR 8174 - CES - Centre d''économie de la Sorbonne, Pantheon Sorbonne - Paris University 1

Abstract

We study the changing international transmission of US monetary policy shocks to 14 OECD countries over the period 1981-2010. We use a Time Varying Parameter Factor Augmented VAR approach (TVP-FAVAR) to study the EFFR shocks together with a large data set of 265, major financial, macroeconomic and trade variables. Our main findings are as follows: First, negative US monetary policy shocks have considerable negative impact on GDP growth in US, Canada, Japan and Sweden while most of the other member countries benefits (with France being most benefited). Second, the transmission to GDP growth has increased in OECD countries since the early 1980s. We also detect a more depressed GDP over medium term in US, Canada, Japan, Australia, Norway and Sweden over the recent Global Financial Crisis. Third, the size of US monetary policy shocks during financial turmoil periods were unusual than normal periods and varies overtime. The Financial Crisis (2008-2009) is evidenced by decline in residential investment in US and propagation of this shock to Canada, Germany, Japan, Switzerland and New Zealand over the recent period. US monetary policy shocks reduce share prices in most of the OECD countries; this impact is more pronounced over the turmoil period. Asset prices, interest rates and trade channel seem to play major role in propagation of monetary policy shocks.

Completed draft available on request from:
Irfan akbar Kazi
UNIVERSITY PARIS WEST, NANTERRE LA DEFENCE
irfan.a.kazi@gmail.com
Nanterre, 92000, France

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