

Abstract

This dissertation aims to analyze the monetary transmission mechanism in key emerging market economies: Brazil, Russia, India, China, South Africa (BRICS) and Pakistan. For this purpose, we have estimated two benchmark VAR models with and without money. The variables include real GDP, consumer price index, short-term interest rate, M2 and the real effective exchange rate. We examined the dynamic responses of various macroeconomic variables to the policy shocks by means of analyzing the impulse response functions and variance decompositions of the series and also compared them with that of the United States'. The findings of this dissertation can be summarized as follows: As a result of a temporary rise in the short term interest rate (i) the response of output is diversified across countries. Overall, the interest rate increase has a negative effect on output. In Brazil, Russia and India we observed a temporary fall in output that converges to baseline afterwards, while it continues to show negative divergence in case of China, South Africa and Pakistan. (ii) Real appreciation of the exchange rate in BRICS countries is found. In case of Pakistan real effective exchange rate shows a cyclical behavior. (iii) Prices respond sluggishly to the monetary policy shock in countries of the BRICS association and only start to fall significantly several quarters after GDP. In case of Pakistan prices respond by an immediate decrease.