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The Relationship between Inflation and Devaluation in Iran

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Abstract

Inflation, the continuous increase in public price level and continuous decrease in money's purchasing power, whether as a result of demand addition or increasing in production cost, is one of the most important problems for economics. High inflation rate have undesirable effects on economic development and growth. Increasing imported raw materials and intermediate products price is one of the factors that result in cost push inflation. Devaluation policies used to improve the balance of trade may cause higher inflation by increasing imported commodities price.

In this paper, we examine the effects of Iran's devaluation on its inflation by using the simultaneous equation system. To do this, we use Iran's data for 1345-1380, which is provided by Iran's Statistics Center. The results confirm the relationship between Iran's inflation and its devaluation.

Keywords: Inflation, Devaluation, Monetary Base, Effective Exchange Rate

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4. Autoregressive

1. Onts,Z and Osmucur,S(1993)
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1. Lafleche,T(1997)
2. Amit,K and Nelson,E(2002)

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$$H = f(K(-1), CPI, EX, H(-1))$$

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(CPI)

: H

: k(-1)

: CPI

: E.X

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(EF)

CPI

(H)

(U)

(P)

$$CPI = f(EF, P, U, H)$$

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:

$$ef = f(CPI, (NOX-M), EF(-1), R)$$

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:

: EF

: NOX-M

()

:

:R

$$\text{CPI} = \frac{5}{65} + \frac{0}{05}E_F + \frac{8}{5}P_2 - \frac{12}{32}U + \frac{0}{03}H$$

(0/23) (1/81) (2/67) (-4/5) (10/02)

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PDS

3SLS

3SLS

...

H=76/8+0/22k(-1)+6/42CPI+0/0005 ex+0/5H(-1)
(0/32) (3/5) (3/12) (3/3) (3/62)

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OLS
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$$EF = 411/1 + 0/53 \text{ CPI} + 0/93 \text{ EF}(-1) + 0/108 \text{ (NOX-M)} - 1/5R$$

(2/09) (1/93) (6/57) (3/01) (-1/8)

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