THE RESPONSE OF MONETARY POLICY THROUGH INTEREST RATE TO OUTPUT GAP

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ABSTRACT

It's proposed to create a macroeconomic model in order to determine the relationship between these variables. This model is based on a structural autoregressive vector. The reaction form of studied variables to shocks of other variables included in the model represents the mechanism of transmission. Determination of this mechanism is considered a major objective of many macroeconomic studies.

KEYWORDS: *interest rate, output gap, potential GDP, mechanism of transmission, structural autoregressive vector.*

JEL CLASSIFICATION: A23, C12, C22, C56, E64.

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