IMPACT OF QUANTITATIVE EASING ON EMERGING MARKETS – A CASE STUDY ON INDIA

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ABSTRACT

The Problem: To understand and analyze the mechanisms, effects and consequences of conventional and unconventional monetary policy on emerging markets in particular. The recent financial crisis has changed the mechanism of monetary policy transmission in developed countries. The question of how one to do this by analyzing the impact of Quantitative Easing 3 (QE3) on the Indian Economy focusing on inflation, exchange rates and interest rates.

METHODOLOGY

An illustrative example of the researcher’s methodology based on Saunders’ 2009 theory (Source: Researcher’s interpretation)

CONCLUSIONS AND RECOMMENDATIONS

The results of the VAR models indicate significant relationships between inflation, exchange rates and interest rates.

KEYNESIAN ECONOMICS

INTRODUCTION

The aim of this research is to understand and analyze the mechanism, effects and consequences of Conventional and Unconventional Monetary Policy on emerging markets in particular. The researcher intends to do this by analyzing the impact of Quantitative Easing 3 (QE3) on the Indian Economy focusing on inflation, exchange rates and interest rates.

The next step was to check for an association between the variables to choose the type of VAR and run it and found out that there is a long run relationship between the variables and therefore a Vector Error Correction Model was used.

RESULTS

The research used secondary data analysis by collecting data on Federal Funds Rate, Quantitative Easing Purchases, Indian Interest Rate, Indian Wholesale Price Index, Indian Rupee Dollar Exchange Rate and transformed them into first difference log variables to make them stationary.

For model 1, the direction of the effect is completely opposite to the first model indicative of the fact that QE purchases of long-term assets might have a negative impact on the exchange rate, a positive impact on interest rates and an increase in inflation albeit only marginally. Once again, it is stressed here, that given the small sample size used in the VECM, the effect of an external shock may not be a true reflection.

REFERENCE
