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Monetary Policy Shock in China: A Medium-scale DSGE Model*

Kwangsuk Han, Zhaojun Sun*****

Abstract

This paper estimates a closed medium-scale dynamic stochastic general equilibrium (DSGE) model and presents the dynamic monetary policy shock effects on the Chinese economy. Some important parameter values were estimated by applying the Bayesian approach to quarterly data of three Chinese macroeconomic variables, real output, real consumption, and inflation, for the period from 1992:1 to 2018:4. The closed medium-scale DSGE model shows that a positive monetary policy shock has negative effects on the real output, real consumption, investment, labor, inflation, real wage, and real government consumption, whose values go down in the first period but then rise and finally revert to the steady-state values. Conversely, a negative monetary policy shock has positive effects on the real output, real consumption, investment, labor, inflation, real wage, and real government consumption in the short run. Our results are fairly consistent with the findings of Smets and Wouters (2003, 2007) and Christiano, Eichenbaum, and Evan (2005).

JEL Classification: C10, C32, E30, E52

Key Words: Medium-scale DSGE model, Monetary Policy Shock, China

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** Kwangsuk Han, Dept. of International Trade, Pusan National University, Email: kshan@pusan,ac.kr.

*** Zhaojun Sun, College of Economics Shenzhen University, Email: sun.zhaojuns@163.com