IEIT WORKING PAPER SERIES

A Small Open DSGE Model for the Chinese Economy

한광석

WP-2022-002

경제통상연구원
June 2022

이 논문은 2022년도 경제통상연구원의 지원을 받아 수행된 연구임

A Small Open DSGE Model for the Chinese Economy

Han, Kwangsuk, **Department of International Trade,**

Pusan National University, Korea

Abstract

Economists disagree about the effectiveness of monetary policy and the necessity of government intervention. Classic economists, such as Adam Smith advocated a complete market so there have use of monetary policy and government intervention. Keynesian economics emerged with propositio of government intervention and the utility of monetary and fiscal policies. New Keynesian econom modified real business cycle model, adding nominal rigidities, various shocks and frictions, incomp markets, and so on, to construct a dynamic stochastic general equilibrium (DSGE) model, which cla monetary policy non-neutrality in the short run.

In the paper, a small open dynamic stochastic general equilibrium model was used to present the dynamic effects of monetary policy shock on the Chinese economy. Some important parametric values were estimated using a Bayesian approach, leveraging quarterly Chinese macroeconomic data representing real output and inflation from January 1992 to April 2018.

According to the model, a negative monetary policy shock in the home country drops interest rates below their steady-state value, negatively effecting real output, labor, inflation, real wages and real consumption. However, this negative monetary policy shock affects net exports, sending the economy above its steady-state value.

JEL Classification: C51, E22, E30, E52

Key Words: small open DSGE model, Monetary policy shock, Chinese economy.

Corresponding Author: Han, Kwangsuk (kshan@pusan.ac.kr)