

Monetary policy rule for China: 1994-2006

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Abstract

With the development of market-oriented economic reforms, Chinese monetary policy plays an important role in the world. The objective of this paper is to review the recent conduct of Chinese monetary policy and the central bank's rule-based behavior in period 1994-2006 by estimating the monetary policy rules (monetary policy reaction function). It compares four kinds of monetary policy rules -Taylor rule, McCallum rule, Modified Taylor rule and Modified McCallum rule and conducts the empirical study of these four rules with Chinese data. The findings are that these four estimated rules can describe Chinese monetary policy stance in some degree and Taylor rules are better than McCallum rules in evaluating Chinese monetary policy performance. This study includes five sections. Section 1 is the introduction. Section 2 is the brief literature review. Section 3 indicates four model specifications of monetary policy rule. Section 4 evaluates Chinese monetary policy performance utilizing models mentioned in Section 3. Section 5 provides concluding remarks.

JEL classifications – E32

Keywords: Taylor Rule, McCallum Rule, Modified Taylor rule, Modified McCallum Rule, Monetary Policy Performance

* Corresponding author –

Danfeng Kong

Shandong University

27 Shanda Nanlu,

Jinan, Shandong, P.R. China 250100

E-mail: danfengkong@sdu.edu.cn