

Monetary Policy Shocks and Inflation Dynamics

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Abstract. This article examines the relationship between monetary policy shocks and inflation dynamics in developed economies. Using a structural vector autoregression model, the research analyzes how unexpected changes in monetary policy tools, such as interest rates, affect inflation rates. The results indicate that monetary policy shocks have both immediate and long-term effects on inflation, highlighting the importance of adaptive policy frameworks.

Keywords: Monetary Policy, Inflation, Developed Economies, Policy Shocks, Economic Stability

Introduction

Understanding the dynamics of inflation in response to monetary policy changes is crucial for policymakers. This paper delves into the effects of monetary policy shocks, particularly in developed economies, where policy tools like interest rates play a significant role. By employing a structural vector autoregression model, the study scrutinizes the immediate and protracted impacts of unexpected monetary policy adjustments on inflation. The findings underscore the necessity for adaptive policy frameworks that can mitigate the adverse effects of such shocks on inflation, ensuring economic stability and growth.

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