ABSRACT

The conduct of monetary management has undergone significant changes in the 1990’s in terms of objectives, framework and instruments, reflecting broadly the progressive liberalisation of the economy. Moreover, crucial changes happened in the institutional set up can be identified in the case of fiscal-monetary relationship, pre-emption of resources through reserve requirement, structure of interest rate, innovation of financial products, development of capital markets and opening up of the economy. Present study identifies that there is a significant change in the role played by many variables in explaining the macroeconomic dynamics in the Indian economy during the liberalized era. In the short-run variables like asset prices, export level, exchange rate and inflation have significant level of information regarding the output variations. Output level and asset prices indicate the variation in money supply. However, in the long-run money supply, interest rate and output level have crucial role in explaining the macroeconomic scenario. Present study explains the working of money supply, interest rate, exchange rate and other asset price effect channels in the economy. The analysis of sectoral impact of monetary policy also conclusively suggests the importance of sector specific policies in the Indian economy. The results show that monetary shocks produce inconsistent responses in many sectors. Business cycles have significant influence in explaining the long term investment behaviour in the economy.