

PREFACE

Studies on the effect of monetary policy on inflation, particularly in Nepalese context, are not many. The objectives of monetary policy have been narrowed down to inflation control in several countries throughout the world. There are several determinants of inflation, and sometimes empirically difficult to find their validity at a point of time. Inflation forecasting, therefore, is an equally important issue for the conduct of monetary policy. Thus, there is a need for a new, more up-date study on this subject in the context of Nepal.

Three hypotheses are examined in this study: (a) inflation is a monetary phenomenon (Monetarist Hypothesis), (b) inflation is a fiscal deficit induced phenomenon (Keynesian Hypothesis), and (c) inflation is determined by structural factors (Structuralist Hypothesis). Besides, this study also throws light on a number of related issues such as identifying better forecasting model of inflation in Nepal, and testing statistically the robustness and stability of the inflation model estimated in this study.

This study is based on secondary data starting from FY1975/76 to FY2002/03, 28 years. The whole sample period is divided into two parts since FY1989/90 to examine structural shift in the policy regime. Two types of data frequencies (annual and quarterly) are taken for the examination of the above hypotheses. Annual data are used to test all the three hypotheses whereas quarterly data are used to examine the monetarist hypothesis only.

This thesis has seven chapters. The first chapter is on introduction. The second chapter discusses macro economic performance, monetary policy and inflation measurement in Nepal. The third chapter provides the literature review on the subject and fourth chapter the methodology of the study. The fifth chapter estimates and analyzes various models of inflation in Nepal. The sixth chapter

attempts to forecast of inflation in Nepal. The seventh chapter is on summary and conclusions.

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