Appendix 1

| Period | Policy Framework | Targets | Instruments |
|------------------|------------------------------------|--|---|
| 1935-1948 | Exchange Rate Policy | Exchange Rate Stability | Market Intervention |
| 1949-1956 | Active Monetary Management | Credit Control | Market Intervention, Interest Rate Changes |
| 1957-1968 | Monetization of Deficit | None | Market Intervention, Interest Rate Changes |
| 1969-1978 | Poverty Alleviation | None | Directed Credit, Selective Controls |
| 1979-1984 | Monetary Control | Monetary Aggregates | CRR, Bank Rate, Open Market Operations |
| 1985-1998 | Monetary Targeting | Inflation and GDP Growth | CRR, Reserve Money, Broad Money |
| 1998-2015 | Multiple Indicators Approach | Inflation, GDP Growth, Credit, Output, Trade, Capital Flows, Fiscal Performance, Exchange Rate | Policy Rates, Reserve Requirements, Standing Facilities, Open Market Operations |
| 2016- present | Inflation Targeting | Inflation | Policy Rates, Reserve Requirements, Standing Facilities, Open Market Operations |

Table 1.1 Summary of various monetary policy regimes in India

Appendix 4:

| Variable (Log) | Mean | SD | Min | Max |
|----------------|--------|-------|--------|--------|
| Interest rate | 1.999 | 0.416 | 1.172 | 3.294 |
| Expenditure | 12.139 | 0.456 | 11.401 | 12.928 |
| Taxes | 11.366 | 0.538 | 10.448 | 12.368 |
| Inflation Rate | 4.118 | 0.400 | 3.318 | 4.756 |
| Output Gap | 9.255 | 2.101 | 6.170 | 15.747 |
| Exchange rate | 4.447 | 0.112 | 4.202 | 4.641 |

Table 4.1 : Descriptive Statistics of the data

Table 4.2 : Result of unit root test

| Variable | Phillips- Perron test t-statistic | Critical values (5% level) | Conclusio n | No unit/ Unit root test |
|--------------------|--|----------------------------------|----------------|----------------------------|
| LN(interest rate) | | | | Has unit root |
| Level | -4.335 | -2.890 | Accept | Has unit root |
| LN(Expenditure) | | | | |
| Level | -1.910 | -2.891 | Reject | Has unit root |
| First difference | -45.166 | -2.892 | Accept | |
| LN(Inflation rate) | | | | |
| Level | -2.712 | -2.891 | Reject | Has unit root |
| First difference | -7.056 | -2.892 | Accept | |
| LN(Taxes) | | | | |
| Level | -2.267 | -2.892 | Reject | No unit root |
| First difference | -37.585 | -2.892 | Accept | |
| LN(Output Gap) | | | | Hag whit roat |
| Level | -9.820 | -2.968 | Accept | Has unit root |
| LN(Exchange Rate) | | | - | |
| Level | -1.280 | -2.890 | Reject | Has unit root |
| First difference | -13.051 | -2.890 | Accept | |

Table 4.3 Variance decomposition

| Period | Expenditure | Output Gap | Interest rate | Inflation | Exchange rate |
|--------|-------------|------------|---------------|-----------|------------------|
| 2 | 8.31 | 0.46 | 2.35 | 0.06 | 0.54 |
| 4 | 11.91 | 0.42 | 1.87 | 0.51 | 1.85 |
| 6 | 13.05 | 0.58 | 1.98 | 0.55 | 2.46 |
| 8 | 13.89 | 0.93 | 2.08 | 0.54 | 2.74 |
| 10 | 14.50 | 1.30 | 2.17 | 0.54 | 2.89 |

Variance Decomposition of Taxes

Variance Decomposition of Expenditure

| Period | Taxes | Output Gap | Interest rate | Inflation | Exchange rate |
|--------|-------|------------|---------------|-----------|------------------|
| 2 | 10.08 | 3.84 | 0.34 | 0.03 | 0.83 |
| 4 | 14.18 | 10.12 | 0.89 | 0.49 | 0.95 |
| 6 | 14.15 | 12.55 | 1.10 | 0.73 | 1.01 |
| 9 | 13.79 | 13.75 | 1.22 | 0.81 | 1.10 |
| 10 | 13.52 | 14.41 | 1.31 | 0.84 | 1.18 |

Variance Decomposition of Interest rate

| Period | Taxes | Expenditure | Output Gap | Inflation | Exchange rate |
|--------|-------|-------------|------------|-----------|------------------|
| 2 | 11.50 | 13.22 | 0.37 | 0.45 | 1.59 |
| 4 | 11.47 | 12.99 | 0.81 | 1.9 | 1.76 |
| 6 | 11.61 | 13.22 | 1.04 | 2.00 | 1.83 |
| 9 | 11.66 | 13.43 | 2.31 | 3.00 | 1.88 |
| 10 | 11.67 | 13.57 | 5.52 | 5.00 | 1.91 |

| Period | Taxes | Expenditure | Output Gap | Interest rate | Exchange rate |
|--------|-------|-------------|------------|---------------|------------------|
| 2 | 8.80 | 9.06 | 6.76 | 22.66 | 0.77 |
| 4 | 8.35 | 11.59 | 8.26 | 21.54 | 0.89 |
| 6 | 8.14 | 12.33 | 9.3 | 21.08 | 1.00 |
| 9 | 8.00 | 12.85 | 10.03 | 20.80 | 1.09 |
| 10 | 7.91 | 13.21 | 10.42 | 20.61 | 1.15 |

Variance Decomposition of Inflation

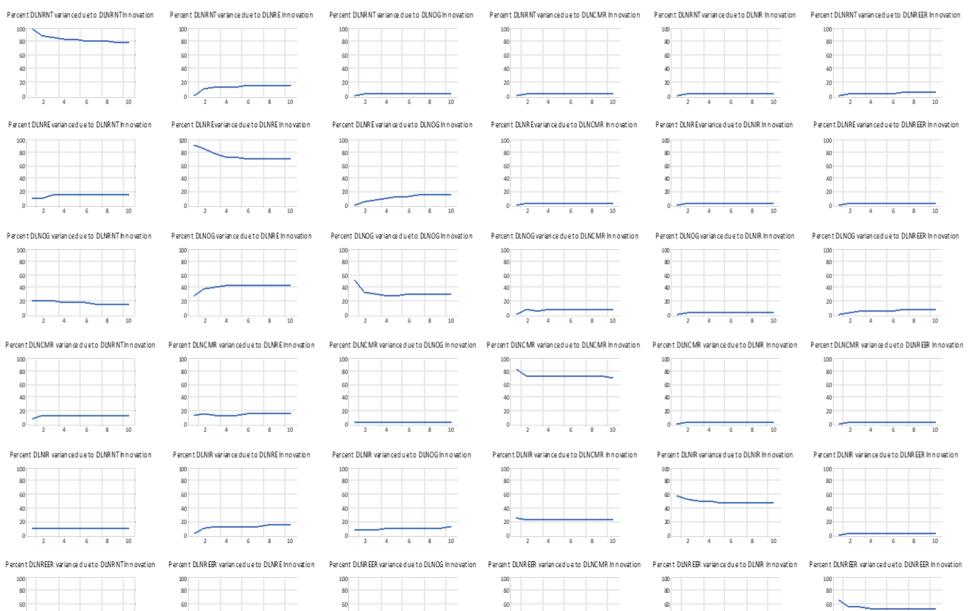
Variance Decomposition of Exchange rate

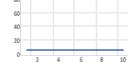
| Period | Taxes | Expenditure | Output Gap | Interest rate | Inflation |
|--------|-------|-------------|------------|---------------|-----------|
| 2 | 5.35 | 6.89 | 3.95 | 18.09 | 10.38 |
| 4 | 7.23 | 8.4 | 3.90 | 17.73 | 10.14 |
| 6 | 8.31 | 8.29 | 3.99 | 17.49 | 10.05 |
| 9 | 9.63 | 8.26 | 4.02 | 17.42 | 10.02 |
| 10 | 11.72 | 9.25 | 4.02 | 17.40 | 10.01 |

Variance Decomposition of Output Gap

| Period | Taxes | Expenditure | Interest rate | Inflation | Exchange rate |
|--------|-------|-------------|---------------|-----------|------------------|
| 2 | 18.61 | 38.43 | 5.80 | 1.89 | 2.4 |
| 4 | 17.78 | 42.58 | 5.28 | 1.87 | 4.44 |
| 6 | 16.17 | 42.92 | 5.43 | 1.03 | 5.25 |
| 9 | 15.18 | 43.00 | 5.53 | 1.00 | 5.60 |
| 10 | 14.45 | 43.18 | 5.58 | 0.97 | 5.78 |

Figure 7: Variance Decomposition





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0

4 6 8 10

40

0

2 4 6 8 10



2

4 6 8 10



