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MONETARY POLICY RULES IN A CONVERGING SMALL OPEN ECONOMY

Éva Katalin POLGÁR

Corvinus University of Budapest, Hungary

ABSTRACT

The analysis of monetary policy rules has been confined to models not capable of examining situations where an economy is converging to a higher balanced growth path. For the small open economies having entered the European Union recently this is however a very relevant question. The main aim of their integration is convergence and most of the criteria they have to fulfil to become members of the euro zone are of monetary nature. It is of special interest for them whether the chosen monetary strategy aiming at the fulfilment of the requirements affects transition. In this paper a first attempt is made to compare monetary policy rules in a monetary model of small open economies, which builds essentially on the convergence literature. The results show that the economy behaves very differently in the transition under the different monetary policy rules examined.

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