

MONETARY POLICY UNDER FIXED EXCHANGE REGIME IN THE CASE OF SAUDI ARABIA: An Econometric Approach

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Abstract

The effectiveness or the desirability of monetary policy is an issue which is continuously discussed but could not be reached to any solution as economists are by no means in agreement to its impacts to economic growth. In fact, the debate surrounding this issue is rooted in the views of Keynesian and Monetarist. Keynesian favors fiscal policy while Monetarists favor monetary policy in the sense of effectiveness under fixed exchange rate. Therefore, the purpose of this study is to examine the extent of the effectiveness of the monetary policy in Saudi Arabia economy; a small open economy with a fixed exchange rate regime - the Saudi riyal is pegged to the US dollar. To test this proposition, this study will use an annual time series data for the variables non-oil GDP, investment and public expenditures; for the period 1968-2013. For our analysis, an econometric model for Saudi economy will be developed and consequently estimated.