

## The Impact of Macroeconomic Instability on the Banking Sector Lending Behavior in Iran (1974-2009)

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### Abstract

In this study, an attempt is made to investigate the impacts of macroeconomic instability on banking sector lending behavior in Iran by using and fitting data on sampled commercial banks variables and certain macroeconomic instability indicators, from 1974 to 2008. We have applied the Co-integration and Vector Error Correction Models to the fitted data, The results indicate that banks lending behavior variable has a long-run relationship with macroeconomic instability indicators.

It seems that increase in macroeconomic instability indicators could be associated with reduction in commercial banks lending behavior in the long run. Similarly, increase in natural logarithm of assets held with the commercial banks which are proxies for banking size, suggest the positive and significant impact on the lending behavior of commercial banks.

However, based on the results derived from the Error Correction Model, and significance of Error Correction Coefficient, 27% of disequilibrium in commercial Banks lending behavior during the last period will be corrected in the current period.

**Keywords:** Macroeconomic Instability, Lending Behavior, Commercial Banks,

**JEL Classification Codes:** C52, E44, G21.

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## The Calculation of Asset Price Index and Analysis of Its Effect on Inflation

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### Abstract

The assets market which comprises the money, exchange, capital, financial and real assets markets can play very important role in the economy, vis-a-vis, formation of inflationary expectations, absorption of disequilibrium and shocks inflicted on the real sector, and at the same time financing the activities rendered in the real side of the economy. However, if assets prices contain the required information regarding the leading indicators of the economy, i-e inflation or economic growth, they should be incorporated in the information package of policymakers. Therefore, considering the importance of asset market in economics, derivation of an index which could reflect the general price trend of this market, is deemed to be absolutely essential. It is obvious that, among the multivariate methods, the principal component analysis is a statistical technique, which is usually used for analyzing the group of correlated variables related to one or more modules like socioeconomic indices, job satisfaction, health, personal credit, and political situation of a country, etc.

In this article, an attempt is made, first to review the relevant literature about the relationship between the assets market and the real sector and after exploring the plausible reasons for the keen interests of policy markers in asset prices, then the required analysis for application of indexing method of principal components approach to economics has been conducted, and subsequently, by utilizing this method, we have constructed the asset price index of Iranian economy. However the results of study indicate that, the impact of the fiscal and real variables on each other, with respect to the dynamic interactions of markets, may cause shifting the recession in one market to lead to liquidity transfer and boom in other markets. Moreover, the results of variance decomposition show that the share of impulses of fiscal and real assets on changes of the variance of inflation is significant.

**Keywords:** Principal Component Analysis, Asset Price Index, Inflation

**JEL Classification Codes:** E31,E64,C40.

## Investigating the Relationship Between the Real Exchange Rate and Price Index of Tehran Stock Exchange: An ARDL Approach

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### Abstract

The Stock Exchange Market is prima facie considered to be one of the main pillars of the capital market in the country and hence it has tremendous capacity to mobilize and allocate the unutilized aggregate savings for accelerating the process of economic growth and subsequently achieving the economic development. However, in this paper an attempt is made ipsofacto, to assess the long-run relationship between the price index of Tehran Stock Exchange and real exchange rate. We conducted the study based on monthly data for the period of 2002-2008, by utilizing the Auto Regressive Distributed Lag (ARDL) Model. The results perse, indicate that the stock market price index is positively correlated with the real exchange rate. Also the estimation results for Error correction Model (ECM) show that for each year, about 36% of imbalances will be adjusted towards the long-run equilibrium.

**Keywords:** Exchange Rate, Consumer Price Index, Stock Market Price Index, ARDL Approach.

**JEL Classification Codes:** E58, F31, G10, E44,C31

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## Estimation of the Optimal Size of Government in Iran By Utilising the Armey Curve

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### Abstract

In the present study, an attempt is made to investigate an inverted U-shaped curve relationship between the size of the government and economic growth in Iran which is known as Armey curve in economic terminology. Hence the optimal size of the government is estimated. The results indicate that the optimal size of government in the case of consumption expenditures is 16.87 percent which is in line with the historical trend.(i.e 16.4 percent during 1977-2007), While the optimum size of government for capital expenditures is about 8.1 percent, that is significantly lower than its historical trend i.e 11.7 percent (1977-2007). In other words, the findings show that the economy could grow at same level over the mentioned period with less government investment expenditures than actual levels. This in turn, by reducing the budget deficit, would have had less inflationary effect.

**Keywords:** Optimal Size of Government, Armey Curve, GMM.

**JEL Classification Codes:** H11, H50, C33.

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## Studying the Effects of Duality of Duties of Chief Executive Officers on the Value of Firms Listed in Tehran Stock Exchange

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### Abstract

The Duality of duties of Chief Executive Officers can potentially increase their risk as being the final decision makers on financial position of firms and as a result, the cost of supervising and monitoring the behavior of management (value of firm) may increase. Thus, this issue can play an important role on determining the financial position of firms and its observance may have direct impact on the value of firms and more essentially on retail and institutional shareholders approach towards the financial structure and value of firms. In other words, whether the distinction which is made in practice, may lead to better supervision on managers and consequently increase the value of commercial units or not is a matter of investigation. In this paper an attempt is made to examine the relation between duality of duties of Chief Executive Officers and the value of 91 firms listed in the Tehran Stock Exchange (TSE) over the period of 10 years, i-e 2001 to 2010. For this purpose, we have utilized the Generalized Least Square Estimation Technique for panel data of 91 sample firms. The results indicate that there is no significant relationship between the duality of duty of Chief Executive Officers and value of firms. Also, there is a positive and significant relation between the debt ratio and value of firms while there is negative but significant relationship between the size and the value of firms.

**Keywords:** Corporate Governance, Chief Executive Officer, Firm Value.

**JEL Classification Codes:** G32,G34.

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## Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization<sup>1</sup>

Translated By:

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### Abstract

In this paper, Samuelson by utilizing the Ricardian theory of comparative advantage has investigated the impact of economic growth of china on American economy which has been significant in recent decades. He has considered the various assumptions regarding the economic relation of China with America. The first assumption is that if the two countries commit to trade with each other, based on the law of comparative advantage, both the countries can benefit from the trade compared to autarchy condition. Thus trade with China is better than, not to trade with that country. In the second assumption, both china and America will trade with each other, but if china due to succeeding higher rate of productivity, attains a significant rate of growth, America as a trade partner of china can benefit from the transaction if and only if, the rate of growth of productivity in china will be merely in commodities which exports to America. The reason is that in consonance with the theory of Asymmetric Growth in International Trade, and under the above condition, the terms of trade for America will improve while for china will deteriorate, but if the productivity growth in china is mainly due to imports from America, in this condition, the terms of trade for America will distort and for china it improves. Thus to specify, whether rate of growth of china may be a threat to American economy will depend on the rate of growth of productivity of China in her exports and imports of commodities over the time.

**Keywords:** American Economy, Chinese Economy, Productivity, Trade.

**JEL Classification Codes:** E31,E64,C40.

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1. Samuelson, Paul, A. (2004). Where Ricardo and Mill Rebut and Confirm Arguments of Mainstream Economists Supporting Globalization. Journal of Economic Perspectives. Vol 18.PP 135-146.

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## Managing the Transition to a Safer Financial System<sup>1</sup>

Translated By:  
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### Abstract

The current financial crisis demonstrates the need for changes in the supervision and resolution of financial institutions, especially those that are systemically important to the financial system. The challenge is to find ways to impose greater market discipline on these firms by giving them incentives to reduce their size and complexity through capital standards, leverage limits, systemic risk insurance premia and other measures. Foremost in the reform agenda is the need for a special legal framework to ensure the orderly resolution of a complex financial institution. There must also be incentives to protect consumer interests, as there can no longer be any doubt that abusive products and practices pose threats to the safety and soundness of the financial system.

**Keywords:** Systemic Risk, Resolution Regime, Consumer Protection, Assets Securitisation, Financial Leverage.

**JEL Classification Codes:** E53,E58,G21,G28.

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<sup>1</sup> Sheila, Bair, C.( 2009). Managing the Transition to a Safer Financial System. Banque de France. Financial Stability Review. The Future of Financial Regulation. No 13. PP 11-22.

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