The Impact of Foreign Exchange Reserves of Central Bank on Rate of Inflation

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Abstract

In recent decate, the foreign exchange reserves of Central Banks have increased significantly. In this paper, an attempt is made to assess both the theoretical and empirical aspects of the impact of foreign exchange reserves on inflation. However, in the hypothesis, we postulated two basic queries, whether increase in the world foreign exchange reserves will lead to global inflation and does the expansion of foreign exchange reserves of any country affect on the rate of inflation of that country? To find the appropriate answer, we applied two different models. In the first model, by using the augmented quantity theory of money, we have found that if through increasing the foreign exchange reserves, its impact on accretion of aggregate money supply could not be neutralised and if this monetary rise will be in excess to growth of money demand then, accumulation of foreign exchange reserves may cause the inflationary pressure in the economy. However, we have noticed that the above phenomenon may occure more in certain countries in which the fixed exchange rate regime is prevailing, but it may also happen in those with managed floating exchange rate system in which the rate of accumulation of foreign exchange reserves could substantially increase proportionately. Thus, the results derived from the estimation of first model indicate, prima facie that the growth of world foreign exchange reserves, will increase the global rate of inflation with a lag of two years significantly.

Similarly, for estimation of second model, we have applied the augmented model of (Yin and Wang, 2006). We have observed that by increasing the rate of foreign exchange, the rial value of fixed foreign exchange reserves in terms of dollar will appreciate and under these circumstances, the rate of inflation may raise if and only if, the impact of foreign exchange rate could be stronger than the effect of unexpected monetary growth. Hence, eventually for the purpose of conducting the empirical study of this model, we have utilized the required data from the selected oil economies of Middle East for the period (1372-1391), sine qua non.

Keywords: Foreign Exchange Reserves, Inflation, Neutralisation Policy, Impact of Foreign Exchange Rate, Unexpected Monetary Impact.
JEL Classification Codes: E61‹F31 ‹E31 ‹E58.

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The Institutional Study and Quantification of Interaction Between the Government and the Central Bank of Iran

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Abstract

In this paper an attempt is made to conduct a survey regarding the institutional interaction between the government and the Central Bank of Iran. For this purpose we have investigated the nature of interplay between these two institutions, through estimating certain indices i.e targets of the Central Bank, the modus operandi of monetary and foreign exchange policy formulation, degrees of political and economic independence of the Central Bank and process of accountability to existing rules and regulations of Iran Per se. The above indices constitute the main elements of Lybek methods in quantifying and comparing the extent of independence of various Central Banks in the world. Based on this method, the positive index indicates the relative independence of Central Banks and the negative index shows non relative independence of Central Banks.

However if the absolute figure of this index is high, then the degree of independence of the Central Bank will be more and vice versa. Nevertheless in consonance with our estimation, the degree of independence of the Central Bank of Iran from the government is -0.25 which indicates the non relative independence of the Central Bank from the government sine qua non. This index for countries like Argentina, Chile, Brazil and peru, is, (0), (2.5), (3), (4.5) respectively. Thus modification of certain paragraphs and articles of prevailing monetary and banking rules and regulations of the country are considered to be necessary. In this context, we suggest that incorporation of some additional articles to the present rules and regulations, may pave the way for more viable independence of the Central Bank from the government quid pro qua.

Keywords: Central Bank, Independence, Institutional Study, Lybek Index

JEL Classification Codes: E62, E52, E58.

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The Comparative Analysis of Data Generation for Measuring The Productivity Indices in Iran and OECD Countries

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Abstract

In this research paper, we have investigated the various methods for measuring the productivity indices which are envisaged per se in the statistical system of Iran and then compare them with those models which are used in member countries of organization for Economic co-operation and development (OECD) that are considered to be pionir in this field in the world quid pro qua. However, the results prima facie indicate that the productivity indices utilized in statistical system of Iran, are far behind of those in OECD. In the Iranian economy, the official entities which are assigned with the task of compiling and generating the required data in the country are not able to provide, i.e the estimated value of capital services and hours worked by the employees in consonance with the relevant norms and standards, prevailing in the statistics .

Moreover, there are serious constraints for utilization of intermediate inputs deflator in the economic activities and the components of value added, in terms of compensation of employees, gross operating surplus, mixed income and net taxes, etc, in the production goods and services, ipso facto. Nonetheless estimates of capital stock applicable to IT capital and Non IT Capital are not generated. Meanwhile, the required, statistics for measuring the productivity indices which are propounded by ISIC classification of economic activities at 2,3 and 4 digit levels are not reported.

Consequently, statistics published by Central Bank of Iran compared with that of Statistical Center of Iran seem to be more relevant and useful because it encompasses value added data of 16 economic activities in term of generation of income which are used for calculation of share of factors production and total factor productivity, in toto.

Keywords: Multi Factor Productivity, Capital Productivity, Labor Productivity, Value of Capital Services, Information Technology.
JEL Classification Codes: D24, J24.

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The Analysis of Water Crisis Conjecture in Iran and The Exigent Measures for Its Management

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Abstract

In this study an attempt is made to analyse and investigate the phenomenon of water crisis of Iran in both aspects of demand for and supply of water in toto and in turn draw the attention of policy makers on the importance of water resources management, vis-à-vis providing the comparative data, to the public. In this context, we have tried first to examine the international water indices and then explore the world outlook of water crises for 2050, Ipso facto. However the result of this research indicate prima facie, that the agricultural sector in the present set-up, has utilized more than 90 percent of water consumption of Iran. But due to structural drawbacks governing the agricultural sector, growing trend of population, rise in consumption of foodstuff, intensified constraints on exploitation of underground water resources, and Ex- inefficiency of water consumption in Iran, the trade deficit of this sector, has reached more than 8 billion dollars per annum. Nonetheless, in consonance with this study, it is obvious that, in the absence of implementing an appropriate policy framework for management of water resources, Iran could face a severe water crisis, and if the current level of consumption of water, increases dramatically, these appaling circumstances will get worse and subsequently the security and economic indices will be deteriorated, sine qua non. Thus, improvement of demand management for water, particularly in agricultural sector through observing the optimal pattern of cropping in national- regional level, and more emphasis on application of virtual water index for finding the best pattern of production and trade for agricultural products and delineating more attention to the economic value of water, could pave the way to resolve the water crisis of Iran pro rata.

Keywords: Water Crisis, Economic Security, Water Productivity, Virtual Water, Trade Balance of Agricultural Sector.
JEL Classification Codes: F52, Q17, Q25.

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Impact of Corporate Governance on Chief Executive Officer (CEO) Duality, Evidence from Iran

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Abstract

The corporate governance is assumed to promote fairness, transparency and accountability in the economic firms. These measures are most important criteria for business activities of any economic system. If the Chief Excecutive Officer acts simultaneously as chairman or assistant chairman of the Board of Directors, he may potentially be bestowed upon the vested authority to run the firm, and this structure of duality will allow him per se to control the flow of information accessible to other Board Members, effectively. As a result, he may prevent any efficient supervision to be performed in the firm. However, the corporate governance is a mechanism which can tackle the agency problem for ensuring that the shareholders funds could not be expropriated or wasted upon the unprofitable activities. Thus, In this paper an attempt is made to investigate the impact of some important Components of corporate governance, including concentration of ownership, percentage share of institutional ownership and percentage share of ownership by Board Members on selection of Chief Executive Officer as chairman or assistant chairman of Board of Directors of certain companies listed in the Tehran Stock Exchange. For this purpose, we have utilized the panel data of 71 firms for the period of 12 years i, e 2001-2013, viz-a-viz applying the Logistic Regression Model for testing the hypothesis. The results prima facie indicate that there is a positive and significant relation between concentration of ownership, Percentage share of institutional ownership, and debt ratio as scale variables and Chief Executive Officer (CEO) Duality (i.e the CEO serves also as the Board Chairman), as dependent variable. On the contrary, there is negative but significant relation between Percentage share of ownership by Board Members and Chief Executive Officer Duality. Furthermore, we have found that there is no any significant relation between the size of the company and Chief Executive Officer Duality, pro rata.

Keywords: Corporate Governance, Chief Executive Officer Duality, Structure of Ownership.
JEL Classification Codes: G34, G32.

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The Application of Survival Analysis Theorem on Management of Credit Risk of Facility Receivers. A Case Survey of Bank Maskan

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Abstract

One of the basic subjects of risk management of banks and financial and credit institutes is concerned with the credit risk management. In this paper an attempt is made to utilize the various methods of survival analysis for model building of credit risks in terms of provisional distribution function of default time. For this purpose, we have applied two different methods of provisional distribution function of default time. The first method is based on the Proportional Hazard Model of Cox, and the second method comprises the Generalized Product Limit Estimator Model. As an empirical work, we have considered the Credit Portfolio of Contract of Reward (Joalah) of Bank Maskan and estimated the probability of its default in accordance with these two methods. Subsequently, we compared the two methods vis-a-vis applying the Receiver Operating Characteristic (ROC) technique. The results of both the models prima facie indicate that more stringent regulatory policy should be implemented in the beginning of repayment period of facilities, because loans with lifetime to default or censore less than 5 months are bearing the highest probability of default per se. We have also found that using the Credit Scoring System by banks not only could pave the way for better management of allocation of facilities to customers, but in turn, as an diagnostic explanatory variable, it can lead to more efficient and meticulous estimation of probability of default.

Keywords: Credit Risk, Probability of Default, Basel Committee Report II, Provisional Survival Function, Generalized Product Limit Estimator, Receiver Operating Characteristic Method.
JEL Classification Codes: C14, C24, C52, E58.

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Liquidity Risk Management in Bank: A Conceptual Framework

Translated By:
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Abstract

Liquidity is a bank's capacity to fund increase in assets and meet both expected and unexpected cash and collateral obligations at reasonable cost and without incurring unacceptable losses. In the context of banking, liquidity, or the ability to fund increases in assets and meet obligations as they come due, is critical to the ongoing viability of the banking institution. Since there is a close association between liquidity and solvency of banks, sound liquidity management reduces the probability of banks becoming insolvent, thus reducing the possibilities of bankruptcies and bank runs. Ultimately, prudent liquidity management as part of the overall risk management of the banking institutions ensures a healthy and stable banking sector. Effective liquidity risk management helps ensure a bank's ability to meet its obligations as they fall due and reduces the probability of an adverse situation developing. This paper examines the sound practices for the liquidity risk management in banks. The paper goes along with the suggestions of the Basel Committee and Reserve Bank of India on management of liquidity risk. In this paper, we explain the meaning of liquidity, liquidity risk and liquidity management. It also discusses the process of building up of a liquidity risk management system.

Keywords: Liquidity Risk, Liquidity Risk Management, Basel Committee.
JEL Classification Codes: G21, G32.

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The South Korean Economy after the Financial Crises in 1997 and 2008[1]

Translated By:
Narjes Moheb[*]

Abstract

Koreas development in the last four decades of the 20th century was astonishing. The growth rate of GDP per capita was even the highest in the world during the period 1965 to 1990. After the World War II, Korea was one of the poorest countries in the world, however, it gradually transformed into an advanced economy. In the late 1990s. Korea was heavily affected by the Asian financial crisis. The crisis revealed longstanding weakness in Koreas development model. After this crisis, Korea managed to implement broad structural reforms. The country started to build a knowledge economy and we can claim that it has been successful. Nowadays, we often hear that a crisis represents an opportunity. Korea is an example of a country that was truly able to utilize such an opportunity. Therefore, the Korean transition to the knowledge economy that was initiated after the financial crisis 1997- 1998 could be an inspiration for Central European countries.

Keywords: Korea, Financial Crisis, Reforms, Knowledge Economy
JEL Classification Codes: G01, O53.