

## **The Effects of Different Methods of Budget Deficit Financing on Macroeconomic Variables in Iran**

**by:**

**Saeid Bayat\* , Vahab Ghelich\*\***

### **Abstract**

Economic stability is one of the most important subjects in macro economy which widely depends on government policies such as financing budget deficit, whereas government budget is an instrument for access to higher economic growth and price stability. If governments tend to achieve these goals, they should take into consideration how to allocate the annual budget. The question which should be answered is whether governments can increase budget deficit to achieve these goals. Before answering this question, two preliminary questions should be answered. Which sources will the deficit provide? and in what economic sectors will the deficit be spent?

Experiences in oil-rich developing countries such as Iran show that in many years, the biggest part of budget deficit financing has been through oil revenues, but in recent years, oil-rich developing countries have tried to increase the share of debt securities in financing budget deficit.

The goal of this paper is to evaluate the effects of different methods of budget deficit financing on inflation and economic growth in Iran using VARX model and expanding window estimation method. The results show that the effects of budget deficit on economic growth depend directly on the method of budget deficit financing in a way that when the most part of financing is through exchange reserve account, the effects of budget deficit on economic growth is positive and its severity is increasing. When the most part of financing is through selling government corporations, the effect of budget deficit on economic growth is positive, however, its severity is decreasing. And when the most part of financing is through selling debt securities, the effect of budget deficit on economic growth will be positive. The policy advice of the paper is that if the government tends to decrease the share of oil revenue in financing budget deficit, the best alternative is to increase the share of debt securities.

The last result of the paper is that when the most part of financing of budget deficit is through exchange reserve account, there is no significant effect of budget deficit on inflation, but when the two other methods of financing play the biggest role, budget deficit increases inflation.

**Keywords:** Budget Deficit, Oil Revenues, Debt Securities, Government Corporations

**JEL Classification:** H61

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## Measuring Non-Observed Economy in Iran The Application of Labor Input Method

by:

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### Abstract

Complete coverage of economic production is a prerequisite for ensuring the quality of national accounts and exhaustive GDP estimates. However, many activities are not measured in GDP official estimation and considered as Non-Observed Economy. Due to the limitations of the main data sources in Iran, researchers have been oriented to macro model methods (containing highly simplified and non-adjustable assumptions) to estimate Non-Observed Economy. These methods are not SNA-based. Therefore, in order to comply with the SNA and provide reliable estimates, this paper, for the first time, has applied the labor input method to measure the Non-Observed Economy. These estimations are based on labor income as one of the main inputs of economic activities and the ratio of compensation of employees to value added in each economic activity. According to the results, the share of Non-Observed Economy in the comprehensive economy of Iran in 1390 and 1395 was 13 and 28 percent, respectively.

**Keywords:** Non-Observed Economy, Comprehensive Economy, Labor Input Method

**JEL Classification:** O17, P44

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## **Assessing the Polarization of Income Distribution in Iran**

**by:**  
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### **Abstract**

Assessing Polarization of income distribution is a new approach that enhances our knowledge and our insight about distribution of income in society. In addition to the significant economic harms of polarization of income distribution, exploring this phenomenon is very important because it is closely linked to the generation of political chaos and social unrest. This article is trying to assess and analyze the polarization of income in Iran between 1390 and 1398. More precisely in this paper, we study the middle class and evaluate polarization by methods presented by Wolfson and the family of indexes proposed by Douclos, Esteban and Ray (DER). According to our results, the middle class has shrunk and indexes of income polarization have increased. Decomposition of polarization index revealed this phenomenon has occurred in big cities and living costs have a great and increasing share.

**Keywords:** Polarization of Income Distribution, Wolfson Index, DER Index

**JEL Classification:** D39, D6

## Policy Interest Rate and Inflation Targeting: Requirements and Preconditions

by:  
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### Abstract

Achieving the central bank's operational goals is the necessary condition for controlling inflation and materializing sustainable economic growth because the efficient monetary policy depends entirely on it. According to the definition, a variable can be defined as the central bank's operational goal if, firstly, the central bank is willing to use it to achieve the ultimate goals and, secondly, the central bank has the ability to control and conduct it. According to this definition, the policy interest rate in the interbank market can be selected as the operational target. Given this feature and the importance of controlling inflation as the most important goal of monetary policy, many central banks in the world have chosen the inflation targeting as their monetary policy strategy and the policy interest rate as the operational goal. Since 1399, this approach has been implemented by the Central Bank of Iran. In order to review this strategy, first the features of the operational goals, tools and ways to achieve them and then the requirements and preconditions for successful implementation of inflation targeting are mentioned. Finally, the method of determining the policy interest rate and also the implementation of the inflation targeting policy in the Iranian economy will be examined. Recognizing this mechanism, it is expected that while considering the need to establish preconditions for inflation targeting, the process of changing policy interest rate will be such that it will lead to achieving macroeconomic goals.

**Keywords:** Policy Interest Rate, Inflation Targeting, Central Bank, Taylor Rule, Interbank Market.

**JEL Classification:** E31, E43, E52, E58.

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## **Mind, Society, and Behavior: Human Decision Making and Development Policy**

**Translated by:**  
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### **Abstract**

Each policy presents some assumptions about human behavior and the underlying principle for today's policy making approaches is the assumption that human behavior emerges from rational choice. Therefore, the approaches which rely on this attitude focus on changing costs and benefits in individuals' actions. However, recent decades have seen serious doubts concerning rational choice as a result of the research conducted into decision making processes.

The new policies rely on a more realistic understanding of people's thoughts and behavior. The perception and utilization of recent findings about human decision making influence the design of effective public policies in the countries around the world. They provide a framework based on three principles of thinking automatically, thinking socially and thinking with mental models. This framework is derived from societies and the history which people share. The implementation of policies and interventions made upon these principles lead to the activation of appropriate mental patterns and, consequently, better outcomes.

**Keywords:** Behavioral Economics, Public Policy Making, Mental Models, Rational Choice Theory.

**JEL Classification:** Z18, D91, J41.

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## Economic Development

(Based on Theoretical and Conceptual Foundations of Negligence towards Production)

by:

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### Abstract

Economic planners and policy-makers need to pay special attention to the design and implementation of appropriate economic development models for developing and less developed countries while taking advantage of the knowledge and experiences of the better developed ones. The current paper studies the negligence made to the significance of production in economy which is prevalent in most under-developed nations. Evidence shows that negligence towards production has created a narrow view of welfare. This view which regards people as consumers rather than producers, resulted in the depletion of issues such as employment, job quality and labor welfare from government policies. This study analyses the foundations of negligence towards production with regard to the three important axes of emergence of Neo-liberalism, the response of humanists to the old issue of production-based development and the spread of post-industrial service economy.

**Keywords:** Economic Development, Neo-liberalism, Humanists, Post-industrial

**JEL Classification:** O10, O15, O25, O31, O38

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