

Population Development and Demand for Money in Iran

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Abstract

Regulating money supply commensurate with the volume of economic activities and determining the exogenous effect of money supply on macroeconomic indicators are obviously dependent on the predictability of demand for money. Non-recognition of variables affecting money demand and the amount of their effectiveness lead to the inability of economic policymakers to focus on target variables. Among variables affecting money demand in our society at present is the change in the age structure of the population.

This article joins Modigliani and Ando's Life Cycle Theory of Consumption with the Baumol- Tobin Model of Demand for Money to specify a function for money demand that shows the effect of change in the age structure of the population on money demand. The coefficients of this function have been estimated using time series data of the years 1338-1386 (1959-2008) through the co-integration methodology. Results indicate that there is a long-term equilibrium relation between population variables and other variables of the money demand function.

Error correction model which reflects the dynamic process of money demand proves the stability of money demand function. Based on our findings, the relative increase in the middle-aged population, who are the main revenue-makers of the society and do the major savings, raises money demand. However, the relative rise in the young and old populations lead to a reduction in money demand. Not considering the change in the age structure of the population and its effect on money demand function causes a bias in the coefficients. The result will be the transfer of wrong information and signal to economic policymakers.

Keywords: The Baumol-Tobin Model of Demand for Money, Age Structure of the Population, Co-Integration, Error Correction Model

JEL Classification Codes: J11, E52, E41, C22

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Nonlinear Relationship Between Private Investment and Real Interest Rates: Utilizing Dynamic Threshold Panel Model: (The Case of Some Developing Countries)

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Abstract

In this paper an attempt is made to investigate the nonlinear relationship between real interest rate and private investment in certain developing countries, during the period (1970-2007), by using the dynamic threshold panel model. Results indicate that the real interest rates have positive effect on investment before the threshold point i.e. about 5-6 percent, but by passing over the estimated threshold point, real interest rates have negative effect on private investment. Thus, if real interest rates increase beyond threshold point, their impact on investment will be perse negative.

Keywords: Private Investment, Real Interest Rate, Threshold Panel.

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A Review of Factors Affecting Credit Risk of Bank's Legal Clients (A case of Melli Bank of Iran)

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Abstract

Establishment of an efficient banking system is one of the necessary and effective tools for the economic development of the country. In the Iranian banking system mobilizing resources and allocating them within the framework of banking facilities are still among the major tasks and duties of commercial banks. The present study, applying the logistic regression model, reviews a random sample of 455 legal entitles (323 creditworthy clients and 132 non-creditworthy clients) who had received credit facilities from Bank Melli Iran in 2008. In the beginning, a number of 39 descriptive variables, including qualitative and financial variables were identified through 5C methodology. Finally, 11 variables which had a significant effect on credit risk and the separation between creditworthy and non-creditworthy clients were selected. The final model was fit on them. In the fit model, the significance of coefficients was studied using Wald statistic and that of total regression using LR statistic (with 95 percent assurance). Results indicate that based on statistical indices, these functions are significant and enjoy a high value in terms of coefficients and separation between creditworthy and non-creditworthy clients.

Keywords: Legal Clients, Credit Risk, Logistic Regression Model, Credit Rating, Credit Facilities

JEL Classification: G21, E51

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The Effect of Concentration Ratio and Economies of Escale on Profitability at the Industrial Sector (A case of Iran)

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Abstract

One of the major concepts of microeconomics is "market" and its various types. There is a structure, conduct, performance (SCP) paradigm that applies to every market. This study surveys the relationship between return on assets (ROA) as an indicator of performance and minimum efficient scale (MES) and concentration ratio (CR) as two structural elements of the industries active in Tehran Stock Exchange (TSE) based on the International Standard industrial classification (ISIC) during 1379-1384 (2000-2006). In order to estimate the relationship between these variables, Panel data method has been used.

Findings indicate that MES and CR collectively had a significant effect on ROA. Furthermore, there is a negative relationship between MES and ROA. The highest ROA was related to "oil, coke, and nuclear fuels" industry and the lowest to "textiles" industry. CR and MES collectively account for more than 59 percent of ROA change in the Iranian industries. MES had a significant effect on ROA in "printing and Publishing", chemical, "other non metallic mineral ores", "basic metals", and "vehicles and their spare parts" industries. Moreover, CR had a significant influence on ROA in "oil, Coke, and nuclear fuels", "rubber and plastic", "food products", "paper products", "printing and publishing", chemical, "electrical machinery", "other non metallic mineral ores", "basic metals", and "machinery and equipment" industries.

Keywords: Concentration Ratio (CR), Minimum Efficient Scale (MES), Return on Asset (ROA), Panel Data, Structure of Industries

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The Relationship Between Financial Development and Income Distribution (A case of Iran)

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Abstract

The relationship between financial development and maldistribution of income is one of the macroeconomic relations which is much discussed and tested in recent years. In this paper, an attempt is made to estimate and model the impact of financial development on maldistribution of income viz a viz of remeasuring the two competing theories which one deals with linear relation and the other with non linear relation between financial development and maldistribution of income. The model is constructed by using the time series data for period of 1352-1386 and then tested the two different sets of proxy for financial development i.e. "ratio of liquidity to GDP" on the one hand and the "ratio of outstanding facilities extended to private sector to outstanding of total extended facilities" and "ratio of transaction value of stock market to GDP". The results indicate that the financial development has negative and significant relation with income distribution and this relationship is per se in consonance with Greenwood and Jovanovich non linear theorem. Moreover the results show that along with the increase in per capita income, the maldistribution of income is increasing but, however the rate of this increment is negative quid pro qua.

Keywords: Financial Development, Inequality, Distribution of Income, Economic Growth, Gini Coefficient, Financial Deepening Index.

JEL Classification Codes: D31, G20, P30

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Institutional Sectors in the Iranian Economy and the Necessity of Structural Reform at the Institutional Sectors in the Economic Development Plans

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Abstract

One of the issues of concern for the economic policymakers of developed countries as of the 1980s was the devising of accounts that are indicative of financial and income flows between institutional sectors of the economy. Previously, due to the lack of information, annual allocation of resources to various institutions was performed inefficiently. Moreover, financial and income resources were either posting surpluses or running deficits. As a result, resources were wasted and the objectives of policymakers could not be achieved. Therefore, the System of National Accounts 1993 (SNA 93) and its revised 2008 version put a special emphasis on the "institutional approach" in addition to the "functional aspects".

Based on institutional sectors' data released by the Central Bank, over the recent years, in the formulation of past economic development plans, the reciprocal relationship among the 5 major institutional sectors including non-financial corporations sector, financial corporations sector, general government sector, household and non-profit institutions serving the household sector, and rest of the sectors has not been duly taken into account. This has led to the imbalanced growth in sectors which has in turn hindered the actualization of the objectives of economic plans.

This article tries to analyze the behavior of each institutional sector in the framework of the Iranian economy based on the major current account balancing items namely; value added, operating surplus/mixed income, gross primary income, disposable income, and savings during 1375-1386 (1996-2008). Meanwhile, shares of institutional sectors in the Iranian economy are compared with the European countries based on which necessary recommendations are given for the formulation of future economic development plans.

Keywords: Institutional Sectors, National Accounts, The System of National Accounts 1993 (SNA 93), Five-year Economic Development Plans

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Lessons of Global Crisis for Macroeconomic Policy ¹

Translated By:
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Abstract ²

The economic crisis though imposes a disruptive impact on the economy and generate tremendous problem for it, but can be considered as a best time to test the validity of different economic theories. The recent economic crisis has once again put forward the question whether economic policies should be concerned about the boom of asset prices and increase in financial leverage. In this paper which is prepared by the IMF experts and approved by prof. Oliver Blanchard the senior economist of IMF institute, the appropriate monetary and fiscal policies which are essential for prevention of future crisis and could mitigate the recent economic crisis, are discussed and debated. Although according to some economists, this paper has not dealt much with the main roots of crisis, but it contains valuable policy recommendations which can stimulate the thought and incentives of researchers towards the pertaining issues.

Keywords: Economic Crisis, Monetary and Fiscal Policies, Inflation, Unemployment.

JEL Classification Codes: E31, E44, E6, H3

¹ Prepared by IMF Research Department, approved by Oliver Blanchard.(Feb 2009).

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² The abstract is written by the translator.

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The Survey of Poverty Condition in the World ¹

Translated By:
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Abstract ²

The issue of poverty and methods of its measurement are bearing special importance in the area of economic welfare. In this paper which is published as an appendix to the report "World Development Indicators of 2008" an attempt is made to study not only the previous estimation of international poverty line, but to provide a new measures of international poverty line.

However in the revised version of international poverty line, through utilizing the new data, this measure has been increased from \$1 to \$1.25 per day.

It is interesting to note that in the new estimation of international poverty line, certain measures like: increased volume of information disseminated from various countries, revision of measuring the PPP of different countries, designation of international standard for estimating the poverty line in certain countries, emphasize on period of survey, methods of collecting data for goods, and cases without responses and non measurability of some episodes, all have been considered in the model. Thus, the results indicate that the new estimation of PPP in most of the underdeveloped countries particularly the poor countries is higher than the previous one. Though, based on the results of this report, the number of poor people living on the international poverty line of \$1.25 per day are declining from 1980 onwards and the highest reduction belongs to East Asia and Oceania.

Keywords: poverty, poverty Line, Measuring the poverty Line, Relative poverty, Absolute poverty, International poverty, Regional poverty.

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¹. This report is the complete translation of World Bank report about poverty condition in the world issued in 2005 and published as "poverty Data" in 2008.

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