Keio University

Thesis Abstract

No.

Registration Number	■ "KOU" □ "OTSU" No. *Office use only	Name	Farhad Taghizadeh Hesary

Thesis Title

MONETARY POLICY AND OIL PRICE DETERMINATION

Thesis Summary

This thesis provides a series of studies about the impact of monetary policy on the crude oil prices. Also it provides several surveys regarding the modeling of oil prices in both theoretical and empirical aspects.

While the oil price shocks of 1970s can be explained by pure supply factors, starting in the 1980s oil prices increasingly began to come under a different type of pressure. Oil prices accelerated from about $35/barrel in 1981 to beyond $111/barrel in 2011. At the same time interest rates subsided from 16.7 percent per annum to about 0.1. This thesis explains how this long-term price increase was, in most cases, caused by expansionary monetary policies that heightened oil prices through interest rate channels. Aggressive monetary policies stimulated oil demand and blew up oil prices, a trend that led to slower economic growth.

Moreover in this thesis we showed that after the subprime mortgage crisis the weaker exchange rate of the United States (US) dollar caused by the country's quantitative easing pushed oil prices in US dollars upward over the period of 2009–2012, by causing investors to invest in the oil market and other commodity markets while the world economy was in recession in this period. This trend had the effect of imposing a longer recovery time on the global economy, as oil has been shown to be one of the most important production inputs.

Other finding of this thesis is that, by developing a general equilibrium model we concludes that movements in the oil prices mainly affect the economy through the demand side (shifting the Aggregate demand curve) by affecting household expenditures and energy consumption.

Moreover results of this thesis suggests that the impact of oil price fluctuations on developed oil importers' GDP growth is much milder than on the GDP growth of an emerging economy oil importer. On the other hand, however, the impact of oil price fluctuations on the emerging economies' inflation rate was found to be milder than in the developed countries that were examined.

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And the last finding of this thesis is for the Japanese economy. Recently Bank of Japan (BOJ) in order to overcome the deflation and achieve sustainable economic growth set the inflation target at 2 percent and implements aggressive monetary policy to achieve this target as soon as possible. Although prices started to rise after the BOJ implemented monetary easing, but main reason for this Price elevation may not come directly from easy monetary policy, but other sources such as higher Oil prices. An expensive oil price in Japanese yen which is result of depreciated Japanese yen is one of the main causes of the inflation.