Abstract

This study analyses the monetary policy transmission mechanism in India using monthly data from April 2005 to December 2013. It uses Index of Industrial Production (IIP), Wholesale Price Index (WPI), Call money rate (CMR), Exchange rate (Exrate), Money Supply (M3), international Brent Oil Price (OIL) and structural VAR methodology to analyses the interaction among these macro variables. Also the restrictions have been imposed on the contemporaneous matrix based on the tentative economic assumptions. The impulse response functions and variance decomposition are generated to analyze the movements of the shock and percentage influence of each variable on study variables. It finds that International oil price do impact of monetary policy transmission on GDP growth and inflation in India. Among the various channels of transmission, interest rate channel are found to be important, while exchange rate channel is weak.