

Does Internet Globalization Justify the Inclusion of The Exchange Rate in Taylor-Type Monetary Policy Rules? Evidence From Inflation Targeting Emerging Economies

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Abstract

This paper delves into the significance of directly including the exchange rate in Taylor-type monetary policy rules, particularly in relation to the impact of Internet globalization. Drawing on data from 15 emerging countries spanning the period 2000 to 2020, a three-step methodology using panel linear models is employed to 1) examine an augmented Taylor rule that directly integrates the exchange rate, 2) explore the potential influence of the exchange rate, openness, and the Internet on the interest rate 3) investigate into the intensifying effect of Internet globalization on the role of the exchange rate within the Taylor rule using a moderated moderation model. The overall findings underscore the relevance of explicitly including the exchange rate in the Taylor equation to explore ways and means of improving the effectiveness of monetary policy in light of the observed intensifying impact of Internet globalization on the role of the exchange rate within the Taylor rule.

Keywords: Internet globalization, Exchange rate, Taylor-type monetary rules, Inflation targeting