TAYLOR RULE OR MCCALLUM RULE
FOR CHINA’S MONETARY POLICY

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〈SUMMARY〉
Using both GMM (Generalized Method of Moments) and SVAR (Structural Vector Autoregression), this paper aims to tackle an important problem in China’s recent monetary policy: whether the policy is better captured by the Taylor rule or the McCallum rule. The estimations suggest that the McCallum rule is more active than the Taylor rule in China. Furthermore, GMM model gives the formula to predict money supply m2 by giving inflation, output, and nominal exchange rate targets, which can nicely track the behavior of actual m2. In order to get more accurate results and to grasp the nuances of the economic variables, monthly data are used. The paper also includes a comprehensive literature review on China’s monetary policy rule.