Abstract

In an effort to examine role of capital markets' efficiency in transmission of monetary policy, 28 time series of market efficiency development are estimated with use of long-term memory and fractal dimension measures and a panel of 27 inflation targeting countries is constructed to run a random effect regression. The cases of Czech Republic and Austria are thereafter more closely examined with use a vector-autoregressive and threshold vector-autoregressive frameworks on macroeconomic data spanning from 1996:Q3 to 2018:Q4. The evidence obtained through the conducted analyses support the hypothesis, that a more efficiently functioning capital market better contributes to monetary policy pass-through, or conversely, that high transaction costs, barriers to capital market entry, or poor information availability may hinder the effects of central bank's monetary policy.

JEL Classification F12, F21, F23, H25, H71, H87
Keywords capital market efficiency, inflation targeting, monetary transmission mechanism

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