In this paper, a structural vector auto regression (SVAR) approach is used to empirically investigate the effects of monetary policy shocks on output (measured by real GDP) and prices (measured by consumer price index) in Ethiopia. We isolated the SVAR structural shocks by imposing restrictions on the long-run behavior of the variables in the model, which places a recursive restriction on the disturbances of the SVAR. We considered three alternative policy instruments i.e. broad money supply (M2), lending rate and the real effective exchange rate (REER). We find evidence that price-based nominal anchors (Interest rate and REER) have an effect on real output, a modest effect of the lending rate while a significant effect of REER is documented, with a slightly faster speed of adjustment. Similarly, innovation in the quantity based nominal anchor (M2) affects economic activities significantly.