

This paper identifies an optimal monetary policy rule using a calibrated small open economy DSGE model for Mongolian economy. The main result of this study is that domestic inflation-based Taylor rule is the best monetary policy regime for the Central bank of Mongolia (BoM) in terms of welfare loss. Therefore, the result of welfare analysis suggests that BoM should consider not only CPI inflation but also output gap in order to improve household welfare in economy. On the other hand currency board with fixed exchange rate regime could be very harmful to the Mongolian economy because it makes domestic economy more unstable in comparison to the other regimes.