

This thesis investigates the exchange rate pass-through to consumer prices, and its non-linearity and asymmetry effect in Mongolia. The recursive VAR model and non-linear econometric model are applied using monthly data from January 2000 to December 2013. We find that exchange rate pass-through is high and incomplete both in the short and in the long run in Mongolia. There is a statistically significant asymmetry effect, which states that impact of exchange rate depreciation on consumer price is higher than appreciation. However, we do not find an evidence of non-linearity in consumer price reaction to the large and small absolute changes of the exchange rate relative to its sample average and median as a threshold level. Additionally, we estimate the importance of the exchange rate shock for the consumer price variation using variance decomposition technique. In spite of this relatively high pass through, the exchange rate shocks explain a relatively small percentage of the variation in CPI inflation.