

# Empirical Modelling of Money Shocks, Price and Output Fluctuations in South Africa

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**Abstract:** This paper seeks to examine the nature of interaction between money shocks, price and output in South Africa using time series data from 1980 to 2018. The study used the vector autoregressive model, impulse response function and variance decomposition analytical methods. The results found that price and output react positively to money shocks and that money shocks significantly influenced price and output. Money supply constitutes a greater shock to output. The consequence is that money expansion has a higher impact on output than on price. The findings confirm the assertion that monetary policy is a formidable instrument for price stabilization especially for South Africa that has experienced quite a stable inflation rate for some time.

**Keywords:** Money shocks, price, output, impulse response function, variance decomposition