

TRANSMISSION MECHANISM ASSETS VALUATION AND ECONOMIC IMPACT METHODOLOGY OF EXPECTATION CHANNELS

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Asset Price Channel (Asset Price Channel). The asset price channel represents the effect of monetary policy on domestic asset prices, such as bonds, stocks, and other securities. This channel operates through changes in firms' stock prices and household wealth. J. Tobin "q" theory¹ and the life-cycle theory of consumption by A. Ando and F. Modigliani² led to an increase in the importance of the asset price channel within the channels of the transmission mechanism.

J. Tobin explains that the investment costs of enterprises depend on the market prices of their issued securities through the "q" theory. This theory has not lost its relevance even today. In J. Tobin's theory, the "q" coefficient is the ratio of the company's value to the cost of restoring the company's capital.

According to J. Tobin's "q" theory, this relationship occurs through changes in stock prices in the transmission of monetary policy to the real economy. If the central bank increases the interest rate, the money supply in the economy will decrease. This reduces the demand for securities and leads to a decrease in their market price. As a result, J. Tobin "q" coefficient decreases. In the case of a low "q" coefficient, the additional investment costs of enterprises to increase production will become more expensive, leading to a decrease in real production.

J. Tobin's "q" theory and A. Ando and F. Modigliani's life cycle theory of consumption take into account that the monetary policy transmission mechanism works only through the influence of the interest rate on asset prices. Monetarists criticizing the traditional Keynesian model believe that monetary policy not only affects short-term interest rate changes, but also affects long-term consumer goods, real estate, securities, and financial asset markets. puts forward the idea that it is possible to influence by changing³. By influencing these markets, monetary policy affects changes in asset prices and, consequently, aggregate demand.

¹Tobin, J. (1969). A General Equilibrium Approach to Monetary Theory. Journal of Money, Credit, and Banking, 1 (1), February, pp. 15-29.

²Ando A., Modigliani F. (1963). The 'Life Cycle' Hypothesis of Saving: Aggregate Implications and Tests. American Economic Review 53, pp. 55-84.

³Allan H. Meltzer (1995). Monetary, Credit and (other) Transmission Processes: A Monetarist Perspective. Journal of Economic Perspectives 9 (4), pp. 49-72.

Judging from the above views, in the asset price channel, the central bank influences changes in gross output through the stock market. That is, if the central bank conducts an expansionary policy, more money will appear in the hands of economic entities. They try to buy stocks in order to profit from this fund. By increasing the demand for securities, it affects the increase in their market price (P_e). An increase in the market price of securities of enterprises increases the coefficient "q" and increases the investment costs of enterprises for the purpose of additional production. If we pay attention to the fact that the investment costs of enterprises in fixed assets are part of the gross domestic product, this change will directly cause an increase in GDP.

$$M \uparrow \Rightarrow P_e \uparrow \Rightarrow q \uparrow \Rightarrow I \uparrow \Rightarrow Y \uparrow$$

The effectiveness of the asset price channel depends on the impact of macroeconomic changes on securities. For example, based on the size of the stock market, the mechanism of operation, changes in monetary policy, the expected future income of the population and enterprises and the short-term interest rate, the emergence of a speculative bubble, the change in the risk premium, and finally the stock price. affects the prices in the market. Based on the influence of many such factors on securities, we can say that the efficiency of the asset price channel depends on uncertain components. These uncertainties are large in developing countries, and can be explained by the fact that the stock market is not sufficiently developed, not sufficiently competitive, and the changes in the macro economy are irrational in nature. In conclusion, we can say that the asset price channel can lead to unexpected results in emerging countries than in industrialized countries.

Wealth Channel (Wealth Channel). Along with other channels of monetary policy, the "Wealth Channel" of monetary policy can affect the real sector, and this is done under two conditions. For the functioning of the wealth channel, the monetary policy should be able to influence the value of economic agents' wealth, and secondly, the change in their wealth should affect their consumption. There are many scholarly publications devoted to the discovery of the wealth channel, and they have a long history. For example, in 1933, I. Fischer noted that the fall in the price of securities and the value of the population's assets due to the economic crisis could be a stage of economic depression.⁴ Later, A. Ando and F. Modigliani and F. De Leeuw and E. Gramlich created a theoretical basis for this channel.⁵

An increase in the interest rate as a result of contractionary monetary policy causes a decrease in the price of long-term securities held by the population and a

⁴Irving Fisher (1933). The debt-deflation theory of great depressions. *Econometrica* 1, pp. 337–357.

⁵Ando A., Modigliani F. (1963). The 'Life Cycle' Hypothesis of Saving: Aggregate Implications and Tests. *American Economic Review* 53, pp. 55–84.

decrease in the wealth of the population, which in turn causes a decrease in gross output. The scheme of influence of the wealth channel on the economy will be as follows:

$$M \downarrow \Rightarrow i_{MB} \uparrow \Rightarrow i_{QQ} \uparrow \Rightarrow P_e \downarrow \Rightarrow \text{Aholi boyligi} \downarrow \Rightarrow \text{Iste'mol} \downarrow \Rightarrow Y \downarrow$$

In the economic literature, in the first stage of the wealth channel, monetary policy can affect stock prices in many ways. Monetary policy, which can affect long-term interest rates and the level of economic activity, affects stock prices by affecting future earnings and dividend payments of companies. In addition, FS Mishkin noted that low interest rates reduce households' demand for money. According to him, if the central bank lowers the interest rate, it will increase the consumption of households as well as increase their portfolio of assets.⁶

Theoretical models related to the second part of the wealth effect channel, that is, the relationship between asset prices and the consumption level of the population, are based on the lifestyle model of A. Ando and F. Modigliani⁷. This model represents the aggregate consumption function through variables such as expected income stream and net wealth. F. Modigliani created the basis for a large macro model in which monetary policy can affect asset prices and thereby population consumption. According to it, we can write the consumption function as follows.

$$C = mpc[A + H(Y)]$$

Here: - population consumption level, - population propensity to consume coefficient, - net wealth and - present value of expected income stream. As can be seen from the formula, the importance of the effect of wealth on consumption depends mainly on the coefficient of propensity to consume. We find that the shorter the household's consumption plans, the greater the effect of wealth on their consumption. $C = mpcAH(Y)$

Expectation Channel. The success of monetary policy mainly depends on the expectations of economic entities. That is, the same monetary policy measures can lead to completely different economic results under different assumptions. Expected results can be affected by many different elements. Accordingly, the announced monetary policy is temporary or permanent, the conditions for its change, transparency in monetary policy, and credibility of commitments related to monetary policy goals.

Expectation theory in monetary policy has been studied since the 1950s. According to A. Blinder, successful monetary policy does not result from overnight

⁶Frederic S. Mishkin (1996). The channels of monetary transmission: lessons for monetary policy. In: NBER Working Paper 5464, Cambridge, MA.

⁷Ando A., Modigliani F. (1963). The 'Life Cycle' Hypothesis of Saving: Aggregate Implications and Tests. American Economic Review 53, pp. 55–84.

interest rates, but from effective management of expectations of economic agents.⁸ Since only the systemic component of monetary policy (the calculable component) can affect future prospects, the systemic behavior of the central bank plays an important role in determining the economic results of monetary policy. The results of expectations are related to the wage and price behavior of economic entities. When determining prices that will remain stable over a period of time, firms consider not only the current economic environment, but also prospective economic conditions in the future. Economic conditions in this perspective affect the monetary policy transmission mechanism. One of the urgent issues of monetary policy is how the Central Bank will affect the economic situation in this perspective. Based on this, in the opinion of the US economist C. Walsh, the management of expectations of economic entities is at the heart of the monetary policy of central banks.⁹

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Carl E. Walsh (2007). The Contribution of Theory to Practice in Monetary Policy: Recent Developments. In "Monetary Policy-a Journey from Theory to Practice", European Central Bank (Ed.), Frankfurt.

⁸Blinder AS (1998). *Central Banking in Theory and Practice*. 1st Ed., Cambridge: The MIT Press. Pp. 89-126.

⁹Carl E. Walsh (2007). The Contribution of Theory to Practice in Monetary Policy: Recent Developments. In "Monetary Policy-a Journey from Theory to Practice", European Central Bank (Ed.), Frankfurt.