A SVAR MODEL FOR THE BOLIVIAN ECONOMY

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ABSTRACT

Bolivia is a small, open, partially dollarized and virtually fixed exchange rate economy. Under these characteristics it would support the Keynesian economic theory that fiscal policy should play a more important role, as an economic stabilization instrument, compared to monetary policy and, due to the small size of the economy, external shocks should play an important role. In this regard, this work attempts to analyze how fiscal, monetary and external *shocks* propagate in the Bolivian economy using a SVAR model. The main results indicate that fiscal *shocks* have a greater effect on economic activity than the monetary, also external impulses, measured as the changes in energy prices, have a significant impact on domestic inflation and with lower magnitude in growth.

Keywords: Structural Vector Autoregression, Monetary Policy, Fiscal Policy, External *Shocks.*