

# **A VECM Approach in Explaining the Relationship among Economic Growth, Money Supply and Price Level in Bangladesh (1980-2013)**

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## **Abstract**

The study addresses the long run relationship among economic growth, money supply and inflation of Bangladesh using data over the period of 34 years from 1980 to 2013. The study employed the error correction model (ECM) approach in time series data to check both long run and short run dynamics of the variables. To use the error correction model unit root test and Johansen's cointegration test has been conducted. The study finds out that economic growth, money supply and inflation have long run association under Johansen cointegration test. In the short run the study suggests a bi-directional causality between money supply and inflation. As a result, monetary targeting becomes significant for Bangladesh in controlling inflation and keeping economic growth stable.

**Keywords:** *Economic Growth, Price level, Money supply, VECM, Bangladesh*  
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