

## ABSTRACT

### THE IMPACT OF INTEREST RATES ON THE TRINIDAD AND TOBAGO MACROECONOMY - AN ECONOMETRIC STUDY

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In this thesis we examine the potential that the rate of interest has for influencing certain key variables in the Trinidad and Tobago macroeconomy. These variables are: savings, consumption, investment, government expenditure, credit to the domestic sector, wages, prices and money demand.

The empirical investigation is based on the cointegration approach: in the first instance, a long run or cointegrated model is hypothesized and fitted in which the selected economic variable is explained by an appropriately defined rate of interest and other explanatory variables. Then an Error Correction Mechanism Model, based on the Direct-Granger Representation Theorem, is derived. Analysis of the impact of interest rates is based on both the long run and short run consideration.

Other important and interesting features of the methodology include the determination of Unit Roots based on the Dickey-Fuller type tests and the establishment of causality between the interest rate variable and the selected macroeconomic variables.

Emphasis in the empirical work is also placed on the distinction between real and nominal rates of interest.

The results are somewhat mixed, but there is sufficient evidence to suggest that the Trinidad and Tobago monetary authorities can influence macroeconomic activity by pursuing active interest rate policy measures.