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PART 1:

Journal Name:	<u>British Journal of Economics, Management & Trade</u>
Manuscript Number:	2013_BJEMT_4835
Title of the Manuscript:	Interactions between Asset Prices and Monetary Policy in Taiwan — A Structural VAR Model
Type of the Article	Research paper

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(<http://www.sciencedomain.org/page.php?id=sdi-general-editorial-policy#Peer-Review-Guideline>)

- This form has total 7 parts. Kindly note that you should use all the parts of this review form.



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PART 2: Review Comments

	Reviewer's comment	Author's comment (if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)
Compulsory REVISION comments	Clearer explanations should be provided in the abstract. The paper's topic should be explained clearly. The financial system and banking system in Taiwan should be explained and the relationship between them and asset price should be explained and carefully examined.	We have revised the explanations in the abstract as requested. Please see the abstract for details. We have supplemented our explanation as requested. Please see the introduction section for more information.
Minor REVISION comments	The difference in results relative to monetary policy between house price and stock price should be clarified. Not only the transmission mechanism but also the convergence speed may differ. More recent studies should be cited. Also, studies that focus on the Taiwan asset market should be cited more. There may be some studies that are relevant to this field. Are there any structural changes during the sample period? For example, Asian currency	We appreciate this suggestion. Please see the conclusion section for more information. We have supplemented the literature review by citing additional papers, including Gilchrist and Leahy (2002), Cheng and Jin (2013), Musso, Neri, and Stracca (2011), Lai (2002), Huang (2007), and Wu (2010). Please see literature review section for more information. We have supplemented the literature



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	crisis and the Lehman shock might have hit Taiwan asset prices. Exchange rates and US stock prices should be considered in the analysis.	review. Please see the literature review section for further information. We also had to consider whether or not there was a structural change problem in 2008, and after examining the price changes, we determined that they were not large. Indeed, the interaction between foreign exchange rates and monetary policy may be significant, as suggested in the literature (e.g., Faust and Rogers [13]; Bjørnland [7]; Bjørnland and Halvorsen [5]). Foreign exchange rates or international crude oil prices may be added as foreign economic variables in subsequent studies. Given that mainland China, the United States and Taiwan are closely related in economic terms, data for mainland China and the United States may be added to the model in subsequent studies to discuss the interactions of monetary policy, the macro economy and asset prices in these countries. Please see the conclusion section for further information.
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<u>Optional/General</u> comments	Stock prices respond much faster than house prices. Monetary policy channels should be much more thoroughly examined. There may be some elements that affect the relationship between financial policy and house price in the long-run. Also, causality between variables should be carefully examined. A causality test may be effective. It appears necessary to expand the sample period for comparison with other periods. Also, the reason that the end period is 2010Q3 should be explained. If possible, the author(s) should expand the sample period to include more recent times. The explanation for SVAR should be concise. The originality of the research should be much more emphasized. The article should note the presence or absence of any changes in fiscal policy or taxes.	Thank you very much. We wrote this paper in 2011, when the price index for Taiwan was only available through the third quarter of 2010. Thank you very much. We have made corrections to the best of our ability. The impact of changes in fiscal policy or taxes on asset prices could ideally be considered in our future research. We have supplemented the conclusion section to reflect this idea.
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In research on this issue in Taiwan, Lai [21] used the recursive VAR model to discuss the possible credit transmission channel of Taiwan's monetary policy. The empirical results suggest that except for housing investment costs, the contractionary monetary policy did not affect the consumption of durable consumption goods, corporate equipment or machinery. It is thus inferred that businesses may have other channels of capital sources. Huang (2007) explored the 2000 to 2006 period of low interest rates, and found that monetary policy is a valid issue. Huang also verified that the interest rate channel, exchange rate channel, and stock channel were smooth. Huang applied a recursive VAR model was used to estimate the impulse response and to forecast error variance. Wu (2010) added SVAR analysis, a monetary perspective view and the credit transfer channel of monetary policy into the model to explore these two transmission mechanisms of monetary policy on the real estate market impact, with empirical results showing the positive impact of sudden changes in housing prices on call rate loans and investments.

Responding to global financial liberalization trends, Taiwan's government released the financial system from some forms of government supervision in the 1980s. For example, the government relaxed the restrictions on setting up new branches for domestic banking units in 1984, and interest rate regulations were repealed in 1985. Furthermore, the Banking Act has been revised substantially. Other specific changes include opening up Taiwan to foreign banks, establishing financial holding cooperation to expand business servers and increase competition, and the privatization of public banks, among others. There are two kinds of classification in Taiwan's financial system. One type is categorized according to the Banking Act managed by the Financial Supervisory Commission. This type includes commercial banks, specialized banks, and trust investment companies. The other type is categorized according to their finance-related activities and includes post offices, credit cooperatives, off-shore banking units (OBUs), and insurance companies.

In Taiwan, real estate prices and housing loans do exert mutual influences, indicating that factors resulting from the banking system are closely related to housing prices. Since a period of instability in 2008 caused by the U.S. subprime mortgage financial crisis, Taiwan's financial system has been relatively stable, with no liquidity or capital shortages. Because mortgage rates can respond quickly to the easing of monetary policy by the central bank, once interest rates fall, the burden of capital costs for households and manufacturers becomes lower. Currently, money market and bank loan interest rates are low. According to statistical data from the central bank, the average mortgage rate for Taiwan's top five banks has decreased substantially from 9.20% in July 1994 to 1.99% in May 2013.



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Huang Y X. A low interest rate period, monetary policy is valid?, Tamkang University Department of Economics Thesis, Taiwan. 2007.

Wu WW. House prices and monetary policy transmission mechanism-SVAR the application of Pingtung Institute of Commerce Real Estate Management Department Thesis, Taiwan. 2010.