

## ***ABSTRACT***

This study empirically examines the effects of monetary policy shocks on exchange rates in four small open economies in ASEAN (Indonesia, Malaysia, the Philippines, and Thailand) by considering a homogeneous monetary policy regime (*inflation targeting*) and using the Structural Vector Autoregressive (VARs) model. In addition, by imposing restrictions in the short and long term to identify monetary policy shocks. The empirical results found in this study are as follows. (1) The effect of monetary policy shocks on the exchange rate explains a small part of exchange rate behavior, except in Indonesia and the Philippines for the monetary policy variables of real money supply and real money demand. (2) Delayed overshooting occurred relatively short of at least 7-9 months in Thailand and Malaysia. (3) The effect of monetary policy shocks causes exchange rate overshooting in Indonesia and the Philippines in accordance with Dornbusch's theory. (4) The effects of shocks on macroeconomic variables such as output and domestic inflation explain a small part of exchange rate behavior, except for domestic inflation in Indonesia which has a large effect on the exchange rate of around 9-10%. Including the real money demand variable in the model under the policy interest rate and considering a homogeneous monetary policy regime (*inflation targeting*) has been shown to reduce confusing exchange rate responses such as the delayed overshooting found in Thailand. Interestingly, the results found in this study show that delayed overshooting still exists due to monetary policy shocks.

**Keywords:** structural VAR (VARs), exchange rates, monetary policy shocks, delayed overshooting.