

## **THE EFFECT PUBLIC DEBT AND MONEY SUPPLY ON INFLATION IN IRAN WITH THE EMPHASIS ON THE FISCAL THEORY OF THE PRICE LEVEL**

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### **ABSTRACT**

In this study the effect of public debt and money supply on inflation in Iran with emphasis on the fiscal theory of the price level (FTPL) has been studied. This study took place by the use of Auto Regressive Distributed Lag Method (*ARDL*) for the period of 2000-2005 (seasonal). Attraction calculation of short term and long term calculations and Error Correction Model (ECM) shows that the fiscal theory of the price level in Iran is positive and statistically significant. Survey results also shows budget deficit effect on the consumer price index during the year of 20004-20009 (seasonal) that true volume of money and short and long term sold bonds has positive and significant relation with the consumers' price index. Error Correction model also indicates that the estimated effective policies in the long term have been in a way that annually about 34 percent lack of balance in pattern is modified to balance.

**KEYWORDS:** Public Debt, Supply of Money, the Fiscal Theory of the Price Level, Error Correction Model, Auto Regressive Distributed Lag Method