Good example of case study on taylor theory

Business, Company

Economics is a broad field which has its active recognition in almost every walk of life. Economics is the name of how to earn the money and how to consume it and it is one of the most effective things. There are two different types of economics, which particularly are microeconomics and macroeconomics. There are a number of concepts which specifically come under the ambit of Economics and among them; the name of Taylor Rule is one of them, which specifically associated with the leverage and debt . The main perspective of this assignment is to analyze leverage of financial firms from a certain time period according to the Taylor's rule. There are a number of questions that needed to be answered in this particular analysis. Taylor rule is the rule which analyze the impact of monetary policy on different things like on leverage as well.

- It is required to analyze the statistical relationship between inflation and leverage

This particular movement of leverage from 1986 to 2011 is showing that the movement in the leverage was not volatile. It means that the companies have a stable amount of debt to equity ratio in this time period which is a positive sign from the standpoint of the companies. From this analysis, it is found that there is a positive relationship between monetary policy and leverage in the said time period. The leverage mean from 1986 to 2013 was 0. 26, showing that 26% of the assets of the company financed with debt while 64% with the equity which is quite good.

- It is required to analyze the deviation in the analysis as well. The above mentioned graph is showing that the stance of deviation could be on a lower scale because there was a low amount of deviation and volatility has been

envisaged. Deviation could be analyzed with the help of standard deviation, which also regarded as a risk in the language of Finance. The standard deviation in the mean leverage from 1986 to 2013 is 2. 203, which means that the mean of 0. 26 could be moved by 2 points up or down. From this particular analysis, it could be said that the amount of riskiness and deviation is on a lower level with the company.

- In this particular section, it is required to analyze the statistical relationship between leverage and the inflation rate in particular. This could be analyzed by analyzing the increment or decrement rate of both of the elements in particular.

Red line denoted the inflation rate, while the blue line is denoted leverage. It is seen that the relationship between both of these things are not positive as the lines are nowhere near to each other, however the true relationship could be found with the help of correlation analysis.

Correlation analysis is used to assess the level of relationship between two different variables and the two variables here are leverage and inflation and the computed correlation among both of these variables is -0. 67, which comes in a negative figure, showing that the relationship among both of these variables are negative, Therefore it could be said that leveraged has no statistical relationship with the inflation hence Taylor’s law could not be applied on this particular scenario. Regression analysis fails in this particular provision; hence there is no relationship among both of these variables.

Refernces

Drake, P. (2011). Finance: Capital Markets, Financial Management, and Investment Management. New York: John Wiley & Sons.