

Abstract

We examined the dynamic relationship between exchange rate and inflation in Iraq by using annual data during the period (1980-2010), that data are obtained from the annual bulletins of Iraqi Central Bank. The study aimed to analyze the dynamic relationship between the exchange rate and inflation by employing the cointegration, vector error correction, impulse response functions and variance decompositions. The study found a dynamic bilateral long-run relationship between exchange rate and inflation in Iraq, the Impulse response function showed that an random shock in exchange rate had immediate impact in raising inflation and exchange rate, but an random shock in inflation had a low immediate impact in raising inflation and exchange rate