# A Modelling Analysis of Monetary Policy Rule

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**Abstract :** This paper employs a quarterly time series to determine the timing of structural breaks for interest rates in USA over the last 60 years. The Chow test is used for investigating the non-stationary, where the date of the potential break is assumed to be known. Moreover, an empirical examination of the financial sector was made to check if it is positively related to deviations from an assumed interest rate as given in a standard Taylor rule. The empirical analysis is strengthened by analysing the rule from a historical perspective and a look at the effect of setting the interest rate by the central bank on financial imbalances. The empirical evidence indicates that deviation in monetary policy has a potential causal factor in the build-up of financial imbalances and the subsequent crisis where macro prudential intervention could have beneficial effect. Thus, our findings tend to support the view which states that the probable existence of central banks has been a source of global financial crisis since the past decade.