Agricultural Marketing and Commercialization Journal
7(2), 81-96, 2023, ISSN Print: 2676640X, ISSN online: 2676-7570

Recognizing the Impact of Fluctuations in Foreign Exchange Rates and Interest Rates on the Index of Economic Freedom in Iran

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Received: 10 May 2023/ Revised: 17 July2023/ Accepted: 13 August 2023/ Published: 31 December 2023

Abstract

This study aimed to recognize the impact of fluctuations in foreign exchange rates and interest rates on the index of economic freedom in Iran. The research method was practical and descriptive-analytical. The vector auto regression model was used for examining the research model and the Johansen- Juselius procedure was applied for determining the coefficients in the long-run situation. The statistical sample was related to macroeconomic variables and the index of economic freedom in Iran between1996-2019. Fluctuations of the real foreign exchange rate (RER) and real interest rate (RIR) were the independent variables of the study. The dependent variable was the economic freedom index (EFI). Financial development (FIN) and foreign direct investment (FDI) were the control variables. The data were analyzed using Eviews 10 and Excel 2016. The results indicated that fluctuations in the foreign exchange rates and interest rates have a significant impact on the economic freedom index of the country; i.e. as instabilities increase in the economic sections of the country, the economic freedom index decreases.

Keywords: Economic Freedom Index, Fluctuations, Foreign Exchange Rates, Interest Rates.

Introduction

Changes in the foreign exchange systems and the expansion of world trade in the past decades attracted researchers and economic policy-makers in such a way that they conducted more studies on foreign exchange rates. As one of the most important macroeconomic variables, the foreign exchange rate influences different economic sections. As the criterion of the parity value of the national currency of one country against the currencies of other countries, this variable reflects the economic situation of the given country relative to that of other countries. Due to the correlation between the foreign exchange rate and other domestic and foreign variables, this rate is considered a key variable in every economy, and the domestic and foreign economic changes and policies have many impacts on it. Besides, the foreign

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exchange rate is a variable that can influence the performance of the economy and its variables (Krugman et al., 2012). The designers of the economic freedom index of the Heritage Foundation believe that since freedom is considered "a lack of obligation, pressure, or limitation in choosing an action" and the economy is related to the production, distribution, and consumption of goods and services, therefore, economic freedom may be interpreted as "a lack of impositions or limitations on production, distribution, and consumption of goods and services (Hasanpour Kashani & Al-Emran, 2020). Thus, focusing on the economic freedom index is necessary as it is the communication bridge between the countries and can little by little lead Iran to a developed society. So the strategic consideration of the economic freedom index along with increasing the economic growth of countries is considered a vital matter that enables them to develop and improve their economic activities by producing more added value. The previous studies demonstrated that there is a negative correlation between the fluctuations in foreign exchange rates and economic growth. Fluctuations in the real value of foreign exchange rates indicate the strengths and weaknesses of the currency of a given country against foreign currencies. A decrease in the real value of the currency from its equilibrium amount and preventing the foreign exchange rate deviation from its equilibrium amount causes a decrease in disturbances in other domestic prices and an increase in welfare and performance. The interesting point is that problems such as negative impacts on economic growth are the consequence of a floating foreign exchange rate system and the fluctuations in the foreign exchange rate which are due to them and these problems only occurred in some countries (including South Africa, Iran, etc.), and many other countries which were mostly developed ones did not face such problems and there are no such negative effects in the latter countries. This duality leads to a situation in which the fluctuations in the foreign exchange rates have a vital impact on important economic variables such as interest rates. Regarding the governmental policies on economic development, the necessity of economic freedom is completely perceptible in Iran's economy. In this regard, the economic freedom index plays an important role in the economic development and expansion of the country and as a result, leads to its economic growth. On the other hand, as the interest rate is determined by the monetary authorities of Iran and not by the monetary supply and demand, i.e. it is ordered, it does not have vast applications in the monetary influence mechanisms of the country's economy as an index of the value of assets that may be converted into money. Therefore, the interest rate is one of the most important economic variables that influence investment and the real part of the economy; thus, recognizing the impact of foreign exchange rates on the interest rate has great importance (Valian et al., 2012). The expansion of financial intermediation is one of the factors that affect economic freedom. Every economic system is composed of 2 real and financial parts. The financial part complements the real part and includes the activities that are performed by the currency

and other securities. This part consists of financial markets (monetary and non-monetary markets) whose main role is to transfer loanable funds from loaners (i.e. units that have excess savings and are mostly families) to borrowers (i.e. units that have savings deficit and are mostly commercial companies). Therefore, financial markets play a vital role in equipping and guiding the existing funds in the economy to the productive and industrial sections, and as a result, economic growth and economic freedom (PourShahabi & Esfandiyari, 2017). Many studies focused on the effectiveness of a limited number of economic variables such as economic liberalization on economic growth. There are few studies on the impact of fluctuations in foreign exchange rates and interest rates on the economic freedom index in Iran, but this study focuses on these variables in the Iranian economy. Therefore, here we try to examine the macroeconomic variables to recognize the mutual and vague correlations between the fluctuations of foreign exchange rates and interest rates with the economic freedom index in Iran from 1996 to 2019.

Theoretical Foundations

One of the obvious properties of today's economy is its rapid changes. Countries that are capable of adjusting themselves to these changes would be successful in this economy (Ahmadpour Dariyani, 2011). Increasing economic freedom has always been one of the primary concerns of social reformers and public sector policymakers. Economic freedom means absolute economic freedom; i.e. individuals have freedom in various fields, ownerships, jobs and efforts, production, and consumption. In other words, economic freedom means having the right to work, choose the type of occupation (to produce any goods or services that he is willing), location, duration, and period of occupation, and the right to have properties relative to income and assets, the right to add to one's properties through exchanges and commercial trading, the right exploit the incomes and assets according to one's willingness and desire, and finally, the right to inherit and hand down the properties. Economic freedom is one of the important principles of assessing the economic development of countries. Various evaluations are performed each year to measure economic freedom in different countries. According to previous studies, more economic freedom is highly correlated with people's happiness in a country (Harisuta, 2012). The economic freedom of counties is determined based on the following 5 indices: (1) the size and volume of the government, (2) the legal structure of security of property rights, (3) having access to good liquidity, (4) the freedom of foreign commerce, and (5) financial rules, occupation market, and commerce (Franklin, 1941). According to Smith's theory, every country has expertise in producing the goods for which it has more efficiency, and the expertise results in producing more than domestic consumption. The production over domestic consumption of such goods makes it possible to exchange them with other goods that are produced in other countries and the given country has less expertise in producing them. This is the beginning of exchanges and

commerce between nations (Wooldridge, 2008). Economic freedom is the most important principle of the capitalist economic system. The role, responsibilities, and options of the government as the most important obligatory power in society are highly correlated to economic freedom (Lampes, 2013).

The Impact of Macroeconomic Variables on Economic Freedom

Economic freedom is one of the main goals of policymaking and economic decisions. The real foreign exchange rate macro variable is one of the economic variables that have the most direct and close correlations with the foreign section of the economy and can provide the basis of economic freedom; this is because fluctuations in the real foreign exchange rate may generate great fluctuations in foreign commerce section and balance of payments (Jafari, 2009). On the other hand, one of the effective factors in choosing suitable foreign exchange systems in developing countries is the correlation between the real foreign exchange rate and economic growth. Choosing inefficient foreign exchange systems and unsuitable foreign exchange systems had a negative impact on economic growth in many countries (Hallafi, 2007). Fluctuations in the real foreign exchange rate indicate inconsistencies and uncertainties in the economy. In an international system, the value of the national currency plays a fundamental role in determining economic costs related to investment, exports, and imports, and its impact on economic growth. Repeated fluctuations in the real foreign exchange rates cause less commerce and inactivity of the investment flow by decreasing the investments in foreign activities and disrupting the portfolio of financial assets. An increase in the fluctuations in the real foreign exchange rates causes higher prices of tradable goods and higher risks of unforeseen changes in the real foreign exchange rates (Givrin & Roil, 2004). To prevent fluctuations in foreign exchange rates, many countries stabilize the value of their currency against the most important foreign currencies. Nevertheless, some other countries refuse to stabilize the foreign exchange rates and accept floating foreign exchange rate systems, and therefore adopt the fluctuations in their foreign exchange rates. As accumulating investments is one of the most important resources for the continued economic growth of a country, financial markets may be exploited for accelerating the investment formation processes (Khatai & KhavariNezhad, 1999).

Literature review

The foreign exchange rates system of Iran was a fixed one before the victory of the Islamic Revolution, i.e. based on the time requirements and foreign financial capabilities, the foreign exchange rate was adjusted and determined by the government. For example, the official rate of the American dollar was announced at 35 Rials in September 1941. Depending on the time facilities and requirements, this rate faced some fluctuations until 1967 when it was finally fixed at 75 Rials. Governmental control and supervision, foreign exchange rationing, and determining the priorities of

the country for foreign exchange consumptions were preserved until 1973 when the oil prices of world markets had great increases which significantly increased the country's incomes through exporting oil; The foreign exchange rate system of Rial was fixed and convertible in 1973 and there were no more rationing (Hoseinpour, 2010). When the imposed war began in 1980, there were changes in the social, economic, and political situation of the country due to the decreased foreign exchange incomes and the need for imports; thus, the goal of supporting the official value of the Rial at the determined rate was more difficult (Kazeruni & RezaZadeh, 2010). So, besides the government's imposed limitations and controls, there has always been a parallel market that responds to the needs of a particular class of society whose requirements are not fulfilled. Therefore, the free market of foreign exchanges was gradually formed and the upward trend of foreign exchanges started in it. When the war ended and the international problems and barriers decreased, the official controlled policies on allocating the production factors were not logical anymore. Therefore, the economic policies were revised to reach a balanced and acceptable situation. Then, its main routes were designed in the regulations of the first development program. This program's major economic policies were modifying the foreign exchange system of the country. To achieve this purpose, the preferential rates for the American dollar were announced in 1989. However, the change route of the announced rates was opposite the rational expectations; i.e. the preferential-competitive rate of one American dollar was announced at 1000 Rials at first. This rate was reduced to 975 Rials in 3 months, and later to 800 Rials, and finally to 600 Rials in 1990 (officially and as ordered), but its general function was paving the way for adjusting the rate of 70 Rials per dollar which had not changed for nearly 20 years (MehrAra & Akbar Sarkhosh, 2010). In 1993, the country's foreign exchange system was changed to a managed floating foreign exchange system instead of the fixed foreign exchange rate system of the currency basket (the special withdrawal right). This strategy was among the successful policies in the first three months of its execution. But many economic and sometimes political factors prevented its continuity. Some of these factors include increasing the amount of opening overdue letters of credit, crises in foreign debts and trying to call for their moratorium, strengthening the free foreign exchange market and causing a gap between its rate and the announced official rate, inability of the Central Bank to fulfill its obligations based on opening the investment accounts and selling 5000 dollars of foreign exchange to each applicant. So, in 1994 the government withdrew the floating foreign exchange system and followed a new policy based on stabilizing Rial's value and adjusting it depending on the necessities, and imposed severe foreign exchange controls. The investment account was closed again and the free foreign exchange market was announced as illegal in 1995 (Asgari & Tofighi, 2012).

Passing the crisis period, stabilization of the economic situation, and success in paying

part of the foreign debts improved the country's foreign exchange situation. Yet, when the oil price decreased such as in 1998 and 1999, offering governmental foreign exchange decreased in the stock exchange and this caused some disruptions in the market. Therefore, it was again felt that foreign exchange must have just one single rate so that the limited resources are used optimally and with real rates. Thus, it was appointed in the budget regulations of 2001 that the single-rate foreign exchange policy must be used for designing the 2002 budget. The important point is that the type of foreign exchange system that is the foundation of the given single-rate change, is not mentioned in any paragraphs of Note 29 of the 2022 budget program that is about the single-rate policy of foreign exchange rate and its provisions and obligations. So, it cannot be officially stated whether the country's foreign exchange system is again guided to a floating system or any other system. Since the beginning of the third development program, the "fixed rate" policy was pursued to enable economic policymakers to plan their activities, and as a result, the government could nearly stabilize the foreign exchange rate. Controlling severe fluctuations in the foreign exchange rates and continuing its unification was emphasized in the fourth development program. Furthermore, the managed floating system was announced as the country's foreign exchange system; i.e. the foreign exchange rate must be determined according to the supply and demand mechanism and also preserving the competition power of importing companies[4]. Although the managed floating foreign exchange system is announced as the foreign exchange system in recent years and nowadays, regarding the high ratio of oil incomes in the foreign exchange supplies, and government's control over it, and the coordination between Rial's changes with the dollar, the country's foreign exchange system should be named the fixed foreign exchange system adjustable to the dollar (TayyebNia & Fuladi, 2009).

Ciftci & Durusu (2021) studied the causal correlation between economic freedom, foreign direct investment, and economic growth in a selected number of countries from 1995 to 2019. The results showed that there is a causal correlation between economic freedom and foreign direct investment on the one hand and economic freedom and economic growth on the other hand but the causal degree of the correlations between the study variables depends on the amount of the countries' economic freedom. Slesman et al., (2019) studied the impact of fluctuations in the foreign exchange rate and interest rate on the economic freedom index of 83 developing countries from 1976 to 2010. The results of their study based on the panel data model indicated that there is a significant correlation between the impact of the fluctuations in the foreign exchange rate and interest rate on the economic freedom index.

SalahManesh et al., (2021) studied the correlation between economic freedom and

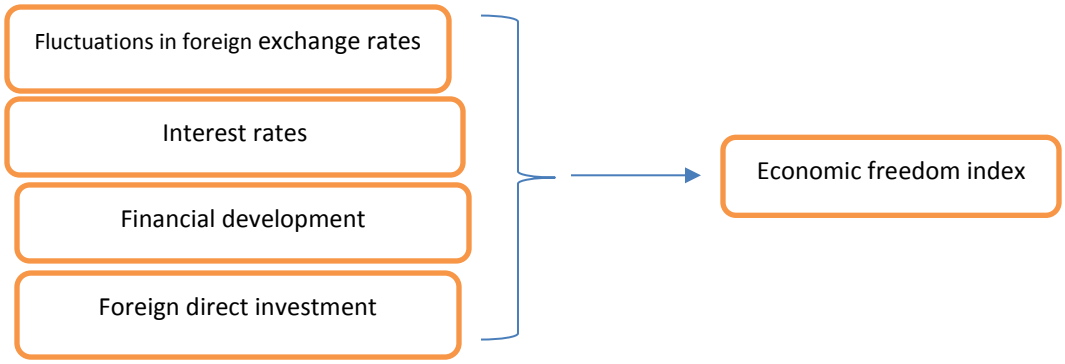
[4] The (a) clause of article (41) of the fourth economic, social, and culture development program of the Islamic Republic of Iran, approved by the Islamic Parliament and the Expediency Discernment Council on September 1st, 2004 and October 7th, 2004 respectively

financial development in a sample of 152 countries from 1995 to 2015. Their study emphasized the countries' income classification. The results of evaluating different models showed that economic freedom has a positive significant impact on financial development. Hasanpur Kashani & Al-Emran (2020) investigated the impact of fluctuations in the foreign exchange rate and interest rate on economic freedom in selected Islamic countries. The assessment results indicated the positive impact of workforce efficiency, forming the gross fixed capital per capita, and the government's political stability on the economic freedom index. Their study also confirmed the negative impact of fluctuations in the foreign exchange rate, fluctuations in the interest rate, and the inflation rate on the economic freedom index of Islamic countries. Rashid & Waqer (2017) studied fluctuations in the foreign exchange rates and interest rates on the export behavior of 221 Pakistani companies from 2001 to 2012. They used the panel data model in their study and concluded that fluctuations in the foreign exchange rates and interest rates have a negative effective impact on the export behavior but production has a positive significant impact on the export behavior.

Method and Methodology

The study was a practical one. The methods of data collection consisted of the library method by taking notes using the databank of academic articles and the field method using the database of the Islamic Republic of Iran and the information of the Statistical Center of Iran. Then the role of the factors that affect the economic freedom index and other macroeconomic indices was analyzed and deduced in the econometric model. The impact of factors that affect the economic freedom index was studied in the analytical section of the research. Using the statistical and econometric techniques of time series data, the factors that influence the economic freedom index in Iran were examined in the inferential section of the study. The statistical sample was related to the macroeconomic variables and the economic freedom index of the country from 1996 to 2019. The research hypothesis was expressed regarding the four given variables, i.e. fluctuations in the foreign exchange rates, interest rate, financial development, and foreign direct investment, have a significant impact on the economic freedom index in Iran. Eviews 10 software and Excel 2016 were used for analyzing the data and achieving the results. The following steps were taken one after the other in the study. Testing the hypothesis and other necessary procedures of the vector auto regression (VAR) were assessed in the first step. Using the Johansen-Juselius procedure and the immediate reaction function and analyzing the variance into the impact of shocks of macroeconomic variables on the economic freedom index, the unrestricted and restricted VAR models and cointegrated VAR models were examined in the next steps. Thus, the time series econometric procedure in Eviews software was used for processing the information and doing statistical tests to assess the model coefficients. Based on the studies which were done both in Iran and outside Iran, and

Slesman et al. (2019)'s study, the conceptual model of the study is explained below:



The conceptual model of the study

The fluctuations in foreign exchange rates, interest rates, financial development, and foreign direct investment are independent and control variables in the above conceptual model. The economic freedom index is the dependent variable of the research.

Table 1. Research concepts and variables

Variable	type of variable	symbol	explanations
Economic freedom index	independent	EFI	It is the average economic freedom indices of the Heritage Foundation
Fluctuations in the real foreign exchange rates	independent	RER	It is achieved from the standard deviation of the real foreign exchange rates
Interest rates	independent	RIR	It is achieved from the difference between the nominal interest rates and inflation rates
Financial development	control	FIN	It is achieved from the proportion of private sector credits to the gross domestic product and its data are available on the World Bank Website
Foreign direct investment	control	FDI	It is achieved from the foreign investment amount that is absorbed by the country

Results

Using the immediate reaction and analyzing the variance, we studied the effects of shocks and the reaction of instabilities of various economic sections on the dependent variable. Then, as the augmented Dickey-Fuller unit root test (ADF) was comprehensive, it was used for analyzing the data. Based on this test, the absolute value of the calculation statistic in the calculated model must be more than the absolute value of its critical quantity at the 95% confidence level, and the largest numbers corresponding with Akaike information criteria (AIC), Schwartz Bizin (SBC), Hannan-Quinn information criterion (HQN) and the maximum likelihood (LL)

show the sustainability level or the optimal interval.

Table 2. Results of the ADF test for the research variables

Variable	The amount of the statistic of the augmented Dickey-Fuller unit root test (ADF)	Result
Economic freedom index	-5.71	Invariance is rejected with one-time differentiation
Fluctuations in the foreign exchange rates	-4.98	Invariance is rejected with one-time differentiation
Interest rates	-4.87	Invariance is rejected with one-time differentiation
Financial development	-4.89	Invariance is rejected with one-time differentiation
Foreign direct investment	-5.02	Invariance is rejected with one-time differentiation

As observed, all research variables stabilized with one-time differentiation which is the necessary method in the Johansen-Juselius procedure and is converted as the first order or I (1).

Determining the Degrees of Autoregression Vectors

The highest amount of Akaike, Schwartz Bizin (SBC), and Hannan-Quinn criteria were used for the optimal interval and the maximum likelihood was used for recognizing the optimal length of the vectors. As Table 3 shows, the optimal interval of vectors is 1 (it is the greatest amount of each of the criteria). Regarding the number of virtual observations and variables, it is not possible to calculate the amount with higher intervals.

Table 3. Studying and determining the optimal interval

Degree or length of the interval	Akaike information criterion (AIC)	Schwartz Bizin (SBC) criterion	Hannan-Quinn information criterion (HQN) criterion	maximum likelihood (LL) criterion
0	18.04	18.29	18.10	193.46
1	14.96	16.45	15.31	134.55

Determining the Pattern and Number of Cognate Vectors- Regression Coefficients and their Normalized Form

The five states are studied comprehensively in Table 4. As the zero hypotheses are tested for smaller to bigger vectors in the Johansen-Juselius procedure, considering the absolute

situation of the vectors (the effect tests and special amounts are less than the 95% critical amount), the number of cointegrating vectors is determined as 2. Besides, considering the given criteria, the third state, i.e. the width from the origin state and without the binding process, the situation is as follows:

Table 4. The quantities of statistics of effect tests and special amounts

Critical amount 95%	maximum special amounts test	mutual hypothesis H1	zero hypothesis H0	Critical amount 95%	effect test	mutual hypothesis H1	zero hypothesis H0
27.58	40.08	r=1	r=0	47.85	78.52	r≥ 1	r=0
21.13	28.95	r=2	r≤1	29.79	38.44	r≥2	r≤1

Table 5 shows the final results of the major and normalized coefficients.

Table 5. Coefficients of the main variables, before and after normalization

Title	FEI	RER	RIR	FIN	FDI
Variable coefficient	0.23	0.02	-0.25	0.89	0.43
Normalized coefficient	1	-4.7	-0.32	3.8	1.3

FEIt = – 4.7*RERt – 0.32 *RIRt + 3.8* FINt + 1.3* FDIt +ET

And the normal vector may be written as follows:

The above correlation (correlation 4) and research hypotheses indicate that when the economic freedom index increases by one percent, the fluctuations in the foreign exchange rate decreased by 5 percent. This amount shows the negative effect of the country's economic freedom index on the fluctuations in the foreign exchange rates.

So, the research hypothesis about the significant correlation between the economic freedom index and fluctuations in the foreign exchange rates is accepted. Furthermore, for a one percent increase in the economic freedom index, the interest rate decreased by 0.32, and this confirms the negative decreasing impact of the economic freedom index and interest rate in the long run. A one percent increase in the economic freedom index causes a nearly 4 percent increase in financial development and a one percent increase in foreign direct investment. Thus, the research hypothesis is accepted and this complies with the economic expectations and theories. It is worth mentioning that generally speaking when the macroeconomic variables decrease the liberalization of the country's economy, there is automatically a pressure towards an implicit increase in the financial instability of the various economic sections. Examples of this situation are seen as a

Agricultural Marketing and Commercialization Journal
7(2), 81-96, 2023, ISSN Print: 2676640X, ISSN online: 2676-7570

decrease in the country's economic growth. So, part of the economic growth decrease is related to the decreases in the liberalization of the country's economy which existed in many countries and may be useful. But the other part may be due to the lack of transparency of the country's economic and financial policies. Although the government should try to realize different economic sections, it must also prevent the shocks due to it so that the fluctuations in the foreign exchange rates and interest rates wouldn't cause a decrease in economic growth.

Immediate Reactions

Functions show the immediate reaction of the active behavior of pattern variables at the time of unit shock on each variable during a time interval. These shocks are usually chosen as a standard deviation, thus, they are called unit hits or shocks. The coordination origin or start point of the respondent's variable movement is the amounts that are related to the system's stable situation. Using the immediate reaction functions, the system's active response to the imposed unit shock from each of the system variables is recognized; i.e. the effect of the shocks on the system's endogenous variables is analyzed. Figure (1) shows the effects of the standard deviation of shocks from the research variables on the economic freedom index in 10 years.

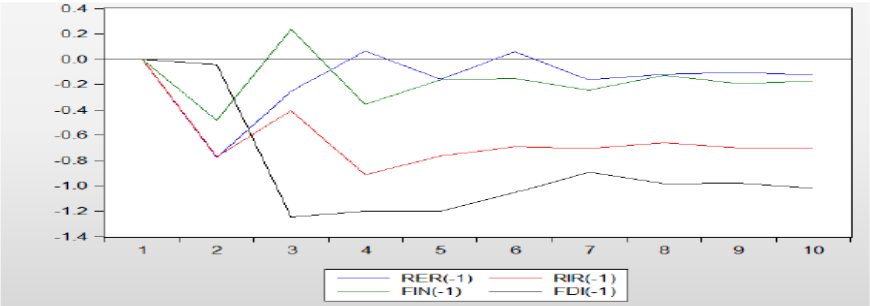


Figure 1. The effect of explanatory variables shocks on the economic freedom index

If the shock is imposed from the foreign exchange rates, it would have a decreasing negative effect until the final round, and the foreign exchange rate shock would fluctuate to the sinus form and cause a decrease in the economic freedom index. So, its trend would superficially comply with the economic theories in the long term. If the shock is imposed from the interest rates, it would partially have a negative effect on the economic freedom index and follows an increasing trend from the fourth round. Then this increasing trend changes to a decreasing one that has a negative impact on the economic freedom index.

If the shock on the economic freedom index is imposed from the financial development, it would follow a sinus form from the beginning of the period to its end, so that it would have a positive impact on the

economic freedom index and tends to increase, and causes an increase in the economic freedom index. If the shock is imposed from the foreign direct investment, it would have a severe decreasing trend till the third cycle and then, it tends to increase the economic freedom index, i.e. the ways of executing macroeconomic policies differ in Iran during the various periods and have unstable effects on the economic freedom index in the long run.

Variance Analysis

The generalized variance analysis is used for analyzing the variances. As figure (2) shows, variable fluctuations in the economic freedom index are mostly justified by their shocks. This explains a great percentage of the prediction error variance. These include sanctions, export and import limitations, and technological progress and are consistent with factors such as investment, efficiency, not using new technologies, etc.

The fluctuations in the foreign exchange rates, interest rates, financial developments, and foreign direct investment play the next roles. As observed, the shock of instabilities of the financial sections essentially has a key role in decreasing the economic freedom index at the end of the period, and the least share is related to the foreign exchange rates. This diagram shows that the shock on the economic freedom index that is imposed by the country's foreign direct investment is greater than other factors, i.e. the shocks of foreign direct investment have been more effective on the economic freedom index.

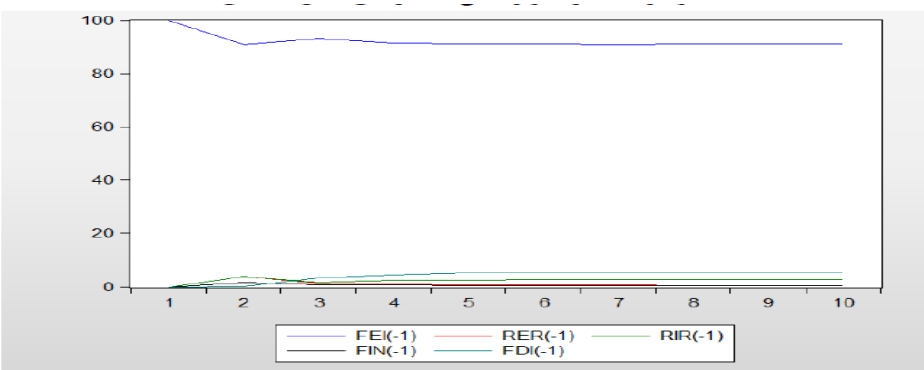


Figure 2. Analyzing the variance of the research model variables

Conclusions

The results of the study indicated that consistent with the research hypothesis, fluctuations in the foreign exchange rates and interest rates have a significant negative impact on Iran's economic freedom index from 1996 to 2019. The results are consistent with the results of the aforementioned studies in previous sections. As the research hypothesis, fluctuations in the foreign exchange rates and interest rates have a negative impact on the economic freedom

index. We can be hopeful that executing continuous financial policies in the country by providing more confidence and motivation grounds for the investors would cause transparency in the country's economic freedom that is consistent with the research hypothesis. The results also showed that in the interactions between short-term and long-term periods, the variables have a positive effect in some intervals and a negative effect in the other ones, and this shows that the effective methods and tools of the country's economic freedom index in the short term are different from those in the long term, and this indicates the adaptive movement to the long-term amounts. Thus, the types of attitudes and policies are different in these periods. To promote the position of the country's real production as one of the bases of economic growth, in addition to producing and developing its infrastructure and preventing and decreasing inflation, there must be special attention to other economic sections, and the policies for their stabilization, promotion, and strength should be followed in the long-run. The shocks due to production (such as technology changes) in special periods indicated that they can reduce financial instability but result in an increase in the country's real production in the new situation because the shocks' situation and its following fluctuations have a negative destructive impact on the financial sections. In addition to causing instability in most periods, these shocks cause a decrease in economic freedom in the new balance situation.

The research results that suggest the effectiveness of fluctuations in the foreign exchange rates and interest rates on economic freedom indicate that the uncertainty of effects due to fluctuations in the real foreign exchange rates must be considered an important matter by economic policymakers. Besides, by imposing suitable policies, a certain area for production growth and inflation control may be provided. The fixed system of foreign exchange rates is outdated in the present world and it doesn't have the necessary efficiency. Nowadays, most countries exploit a floating system with various degrees of flexibility. Thus, it is necessary that for decreasing the uncertainty of real foreign exchange rates in the floating system, suitable foreign exchange, financial, and monetary policies be designed in a coordinated way considering all aspects. Therefore, since there has been an increasing trend in the inflation rate in recent years and an ungovernable inflation rate in Iran's economy, using the policy of decreasing the national money's value or increasing the official foreign exchange rates can complement the anti-inflation policies. Although foreign exchange policies may affect non-oil exports, this effect is not determinant and worth the importance of non-oil exports. It seems that the development of economic sections should not be limited to a few economic sections; rather, in addition to strengthening the private section development, the country's real production must be guided to developing various economic sections and providing a safe room for attracting the investment in financial and private sections. This leads to providing employment, competitiveness, real high-quality production, and finally, a

decrease in the instabilities of financial sections.

In this regard, it is suggested that the government and the high authorities pay special attention to the development of financial and private sections to increase savings. The following executive and practical suggestions are made to realize this goal:

1. Paying attention to the capacities of real production in different sections and the necessity of planning to increase the country's real production
2. Doing purposeful studies to clarify the country's real production and decrease the volume of the underground economy
3. Controlling the number of domestic exchanges and guiding the allocation of resources toward the country's real production
4. Controlling the fluctuations in the domestic credits of financial and private sections to provide certainty for investors to plan further continuous investments
5. Supervising the development of financial and private sections to control the decrease in instability and preserve official exchanges for investment in the production area
6. Editing the monetary and financial policies in line with real production such as correct guiding of the exchanges and the amount of liquidity in the country's economy
7. Providing the necessary infrastructure for using the advantages of the production scale of the country's real production
8. Supporting the investments of the private section for the production area and increasing the government's purposeful investments for decreasing the financial instabilities
9. Provide the necessary grounds for increasing the investors' incomes such as giving them production facilities and incentives to increase the country's real production
10. Performing educational programs and seminars and encouraging the investors to participate in these sessions to identify different aspects of the real production and its expansion ways
11. The efforts of the government and legislative authorities in providing stability in the rules and regulations relevant to preventing financial instability and providing more ease in the exchange areas through the imposed regulations

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