

Demand for M1 in the United States - a comment on Baba, Hendry, and Starr

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Australasian money demand stability: Application of structural break tests

Satish Kumar and Don J. Webber

Department of Economics, Auckland University of Technology, Auckland, New Zealand

Abstract

Estimates of the demand for money provide important foundations for monetary policy setting but if the estimation technique does not explicitly account for structural changes then such estimates will be biased. This paper presents an investigation into the level and stability of money demand (M1) for Australia and New Zealand over the 1960-2000 period and demonstrates that both countries experienced regime shifts. Australia also experienced an intercept shift. Application of four time series methods provide consistent results with 1980 and 1990 break dates. CUSUM and CUSUMQ stability tests reveal that M1 demand functions were unstable over the 1980 to 1990 period for both countries although none for stability as not required hereafter.

Keywords: Money demand; Cointegration; Structural breaks; Australia; New Zealand

JEL: C22; E41

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Corresponding author: Don J. Webber, Department of Economics, Auckland University of Technology, Auckland, New Zealand. Email: don.webber@auct.ac.nz

Description: -

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Stability of the demand for M1 and harmonized M3 in Finland

Starr, 1992, The Demand for M1 in the USA, 1960-1988. The income elasticity of money demand is approximately 0. Figure 1 portrays this evidence in graphs of annual and phase-average values of velocity.

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The contrast is even starker than it appears: FS's models also include adjustments for world wars and a shift in liquidity demand, whereas the random walk model does not. This note discusses effects of this adjustment on Friedman's empirical models.

The predictive failure of the Baba, Hendry and Starr model of M1

That random walk model thus explains more than 30% of the residual variance in FS's U. As Table 1 highlights, reversals of rankings occur on both U.

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Quarterly Bulletin, De Nederlandsche Bank, pp. However, this does not preclude the possibility that changes in the stock of money may have short-run real effects.

The Demand for M1 in the United States : A Comment on Baba, Hendry, and Starr

In equilibrium, wage and public debt indexation may be positively or negatively related. Financial support from the Open Society Foundations and the Oxford Martin School to the second author is gratefully acknowledged.

The Demand for Money: A Structural Econometric Investigation on JSTOR

Fourth method, ADL ECM to see long-range adjustment in variable, before and after addition of variable. This paper investigates the long-run demand for M1 in the postwar United States. It is invaluable to anyone with an active interest in economic issues and has established a reputation for excellence.

Long

We derive a theoretical model for the demand for money using the adjustment cost augmented money-in-the-utility-function approach.

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