

Do monetary aggregates belong in a monetary model? evidence from the UK

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Deskripsi Lengkap: <https://lib.ui.ac.id/detail?id=20512333&lokasi=lokal>

Abstrak

Conventional monetary models focus on interest rates and omit monetary aggregates from policy discussions. This paper examines whether augmenting the measure of monetary policy with monetary aggregates helps determine more robust links between policy and economic fluctuations. After constructing the Divisia money index for the UK, I employ structural vector autoregression to identify two different UK monetary policy regimes. Inclusion of this (correct) measure of money and disentangling the money supply from demand resolve the price and liquidity puzzles. The results point to the informational content embedded in monetary aggregates, suggesting they should be taken into account in evaluations of monetary policy.