

Contents

Foreword	xi
Editor's Introduction	xvii
Part 1: The Theory of Monetary Aggregation	1
1 Consumer Theory and the Demand for Money	3
1.1 Introduction	3
1.2 The Definition of Money	6
1.3 The Microeconomic Theory of a Monetary Economy	11
1.3.1 The Aggregation-Theoretic Approach	14
1.3.2 Index Number Theory	16
1.3.3 The Links Between Aggregation and Index Number Theory	18
1.3.4 Understanding the Divisia Aggregates	23
1.3.5 The Optimal Level of Subaggregation	24
1.4 Econometric Considerations	26
1.4.1 Approximating the Subutility Function	28
1.4.2 An Example	30
1.5 Empirical Dimensions	31
1.5.1 Empirical Comparisons of Index Numbers	31
1.5.2 Results for the Demand System Approach	34
1.6 Extensions	37
1.7 Conclusions	42
Part 2: Money, Prices and Income	44
2 Nominal Stylized Facts of U.S. Business Cycles	47
2.1 Introduction	47

2.2	Methodology	49
2.3	Hodrick-Prescott Stylized Facts	50
2.4	Robustness	53
2.5	Conclusion	54
3	Money, Prices, and Income	57
3.1	Introduction	57
3.2	The Money-Measurement Theme	59
3.3	Granger-Sims Causality Tests	61
3.4	Statistical Issues	62
3.5	Money, Prices, and Income	66
3.6	Conclusion	70
4	Monetary Aggregation and the Neutrality of Money	72
4.1	Introduction	72
4.2	The Many Kinds of Money	73
4.3	Univariate Time-Series Properties	75
4.4	Long-run Neutrality and Superneutrality	78
4.5	Stability Analysis	90
4.6	Conclusion	91
	Part 3: Aggregation, Inflation and Welfare	96
5	Monetary Aggregation, Inflation, and Welfare	98
5.1	Introduction	98
5.2	Theoretical Foundations	99
5.2.1	The Consumer Surplus Approach	100
5.2.2	The Compensating Variation Approach	101
5.3	The Demand for Money	103
5.4	The Empirical Evidence	107
5.5	Conclusion	108
	Part 4: Chaotic Monetary Dynamics	117
6	Random Walks, Breaking Trend Functions, and Chaos	119
6.1	Searching for a Unit Root	121
6.2	Detecting Chaotic Dynamics	124
6.2.1	The Nychka <i>et al.</i> (1992) Estimator	125
6.2.2	Empirical Results	127
6.3	Conclusion	128

7	Chaotic Analysis of U.S. Money and Velocity Measures	131
7.1	Introduction	131
7.2	The Many Kinds of Money	132
7.3	Chaos Tests	135
7.4	Conclusion	140
 Part 5: Monetary Asset Demand Systems		144
8	Monetary Asset Substitutability	147
8.1	Introduction	147
8.2	Theoretical Foundations	149
8.3	Demand System Specification	152
8.4	Stochastic Specification and Estimation	153
8.5	Elasticities	154
8.6	Data	154
8.6.1	Near-Bank Liabilities	155
8.6.2	Aggregation	155
8.6.3	Aggregation of Components	159
8.6.4	Data Sources and Adjustments	159
8.7	Empirical Results Interpretation	160
8.8	Conclusions	165
9	The Demand for Divisia M1, M2, and M3	167
9.1	Introduction	167
9.2	Model Specification	169
9.2.1	The Consumer's Problem	169
9.2.2	Preference Structure Over Monetary Assets	170
9.2.3	Aggregator Function Specifications	171
9.2.4	Recursive Multistage Decentralization	172
9.2.5	Duality	174
9.3	Demand System Specification and Data	175
9.3.1	Functional Form	175
9.3.2	Data	176
9.4	Econometric Results	177
9.4.1	Some Econometric Considerations	177
9.4.2	Results	177
9.4.3	The Separability Tests	182
9.5	Summary and Concluding Remarks	184
9.6	Appendix	187

10 Translog Flexible Functional Forms 189

- 10.1 Introduction 189
- 10.2 The Theoretical Background 191
- 10.3 Demand System Specification and Data 192
 - 10.3.1 Functional Forms 192
 - 10.3.2 Data 194
- 10.4 Econometric Results 194
 - 10.4.1 The Functional-Form Tests 196
 - 10.4.2 The Regularity Tests 196
 - 10.4.3 The Elasticities 200
- 10.5 Conclusion 204

Part 6: Dynamic Asset Demand Systems 206

11 A Dynamic Flexible Demand System 208

- 11.1 Introduction 208
- 11.2 Theoretical Foundations 210
- 11.3 Dynamic Demand System Specification 213
- 11.4 Econometric Results 215
- 11.5 Conclusion 226

12 Consumption Goods and Liquid Assets 227

- 12.1 Introduction 227
- 12.2 Aggregation and Subutility Functions 229
- 12.3 Supernumerary Quantities 230
- 12.4 Demand System Specification 232
- 12.5 Estimation and Testing 233
- 12.6 Empirical Results 234
- 12.7 Conclusion 240

Part 7: Empirical Comparisons 245

13 Empirical Comparisons of Functional Forms 247

- 13.1 Introduction 247
- 13.2 The Demand Systems Approach 248
- 13.3 Eight Flexible Functional Forms 250
 - 13.3.1 Locally Flexible Functional Forms 250
 - 13.3.2 Effectively Globally Regular Functional Forms 252
 - 13.3.3 Globally Flexible Functional Forms 254
- 13.4 The U.S. Consumption Data 255
- 13.5 Econometric Results 257

13.6	Morishima Elasticities of Substitution	266
13.7	Forecast Results	272
13.8	Conclusions	276
14	A Semi-Nonparametric Approach	278
14.1	Introduction	278
14.2	The Demand for Monetary Services	280
14.3	The Data	281
14.4	The Fourier and AIM Models	282
14.4.1	The Fourier	283
14.4.2	The AIM	285
14.5	Computational Considerations	287
14.6	Imposing Curvature Restrictions	291
14.7	Income and Price Elasticities	293
14.8	Elasticities of Substitution	294
14.9	On Confidence Intervals	295
14.10	Conclusions	296
	Consolidated References	299
	Subject Index	321
	Author Index	327