Abstract

This paper attempts to model a real demand for money function of Pakistan. For this purpose we apply bounds test based cointegration technique using the time series data for the period 1973 to 2010. Our findings included three determinants: 1) real income and 2) foreign exchange contain positive relation as well as for both long run and short run dynamics they are the most significant factors of real demand for money. While we found real demand for money is negatively affected by 3) call money rate (is proxied by interest on deposit). However being in a short-run dynamic specification, money demand is found important with the elasticities of real income, exchange rate and call money rate being much smaller in the short-run than in long-run. Stability tests of the paper do not show any serious structural change in the model. As for both CUSUMSQ and CUSUM statistics, showing the critical value line within the bounds that present the model is stable. This model strongly recommends the real demand for M2 is an important monetary aggregate in terms of policy implications of our results including the suitability of the model in Pakistan.

References

- Fisher (1911), The Purchasing Power of Money.
- Ahmad, M. , and A.  H.  Khan (1990), A Reexamination of the Stability of the Demand for
- Dr. Omar Marashdeh (1997) The Demand for Money in an Open Economy: the Case of Malaysia. Southern Finance Association Annual Meeting, Baltimore, Maryland, USA.

- Alkiswani M. , (2001), The Demand for Money in Syria: An Error correction Model and
- Mutluer, D. and Yasemin, B. (2002), Modeling the Turkish Broad Money Demand, Central Bank Review 2, 55-75.
- Akın, Ö. (2003), Modeling the Demand for Currency Issued in Turkey, Central Bank Review 1, 1-25.
- Tahir Mehmood (2005) Relationship Among Money, Interest Rate, Price and Output Evidence from Pakistan.
- Aaron Mehrtra (2006), Demand for Money in Transition: Evidence from China’s Disinflation, Transition (BOFIT), PO Box 160, FI-00101 Helsinki, Finland. Email: aaron.mehrotra@bof.fi.

ARDL Approach, MPRA Munich Personal RePEc Archive.

Index Terms

Computer Science  Algorithms

Keywords
1) Real income 2) Foreign exchange rate 3) Call money rate 4) Call money rates 5) Interest rate 6) Autoregressive distributed lag (ARDL) 7) GDP deflator 8)
Estimating a Function of Real Demand for Money in Pakistan: An Application of Bounds Testing Approach