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THE LONG RUN BEHAVIOR OF THE INCOME VELOCITY OF MONEY IN FIVE ADVANCED COUNTRIES, 1870–1975: AN INSTITUTIONAL APPROACH

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Abstract

The income velocity of money in Canada, the United States, Great Britain, Norway and Sweden displays a U-shaped pattern over the last one hundred years. This paper presents and tests empirically an explanation for this secular pattern emphasizing the influence on velocity of institutional changes. The inclusion into a simple velocity function of institutional developments such as the process of monetization, the spread of commercial banking, financial development and the growth of economic stability improves the explanation of long-run movements in velocity provided by a regression of velocity on real permanent income per head and the interest rate.

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