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Economic Inquiry / Volume 35, Issue 4 / pp. 710-724

INSTITUTIONAL CHANGE AND THE VELOCITY OF MONEY: A CENTURY OF EVIDENCE

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First published: 28 September 2007

https://doi.org/10.1111/j.1465-7295.1997.tb01959.x

PDF

Abstract

We study common features in the income velocity of money, income, and interest rates for Canada, the U.S., the U.K., Sweden and Norway using annual data from 1870. The recently developed and refined techniques of testing for cointegration are employed.

The evidence suggests there is a unique long-run relationship in velocity but not in income and interest rates. Moreover, we find that only a model which includes institutional change proxies is properly specified. We argue that the evidence is best interpreted in the context of common historical developments in the respective countries' financial systems.

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