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## Abstract

In order to assess the importance of monetary and financial developments for key macroeconomic variables in the euro area a money demand system for M3 is estimated adopting a structural cointegrating VAR approach. While maintaining a good statistical representation of the data, long-run relationships are based on economic theory. By using generalized response profiles the dynamics of the money demand system is investigated without any further identifying assumptions. Error bounds of the profiles are derived using bootstrap simulations.


Nicoletti－Altimari，Huw Pill，Mette Felding Schrøder，Juan－Luis Vega，Javier Valles and Jürgen Wolters．The views expressed in this paper represent exclusively the opinion of the authors and do not necessarily reflect those of the European Central Bank．The usual disclaimer applies．

## Notes

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${ }^{7}$ Note that the second cointearatina vector is normalized in $\pi+$ and not in $I_{+}$as in
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${ }^{9}$ According to tests of overidentifying restrictions the parsimonious representation is not rejected by the data.
${ }^{10}$ The operator $\operatorname{diag}^{-1}\left(\beta^{\prime} \Sigma \beta\right)$ is writing the diagonal elements of $\left(\beta^{\prime} \Sigma \beta\right)$ into a diagonal matrix of the same dimension and $(\cdot)^{-1 / 2}$ refers to an element-wise operations.

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