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# Financial deregulation, demand for narrow money and monetary policy in Australia

Asraul Hoque & Naief Al-Mutairi

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## Abstract

This paper examines the long-run relationship between narrow money and output, interest rate, and price level in Australia for the period 1970–1993 with quarterly seasonally adjusted data using the concept of cointegration. The results suggest the presence of a long-run demand function, the absence of instability in the relationship in the face of deregulation/innovation in the Australia's financial system around 1980. The results also indicate the rejection of price homogeneity in the demand equation vindicating this specification in terms of nominal money balances. The underlying latent relationship is further promoted by a high speed of short-run adjustment evidenced from an analysis of short-run dynamics. All the estimated elasticities proved significant and were correctly signed.

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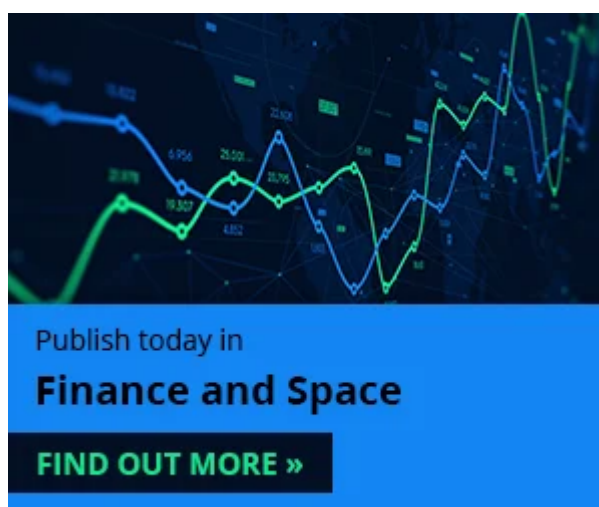
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