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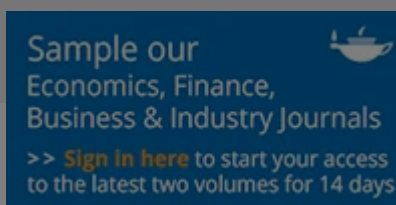
Original Articles

The information content of M0 in the United Kingdom

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Abstract

This paper examines the empirical characteristics of target-goal relationships between M0 on the one hand, and output, prices, interest rates and the current account balance on the other. The results show that M0 is a significant variable in the target-goal relationships. The results are consistent with the hypothesis that M0 may not be a good proxy for monetary targeting.

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Notes

For example, see Barnhart and Darrat ([1992](#)), Barnhart and Wallace ([1994](#)) and Breedon and Fisher ([1996](#)).

For example, see McMillin and Fackler ([1984](#)).

The studies of Barnhart and Darrat ([1992](#)), Henry and Pesaran ([1993](#)) and Chrystal and MacDonald ([1994](#)) also suggest leading indicator properties of M0 with respect to inflation.

Interested readers are referred to Judge et al. ([1988](#)), Sims ([1980](#)) for detailed derivation of the moving average representation and the calculation of VDCs.

Because of data availability the sample period of the M0 system runs from 1969:2-1997:4.

The maximum lag length chosen was a 12 quarter lag. Econometrically, the choice of maximum lag is designed to avoid a possible bias due to the exclusion of important lags, as well as the fragility of inefficient parameter estimates induced by an over-specified lag order. For a discussion on the consequences of under-specification and over-specification of lag length, see Hsiao (1991). Theoretically, the choice of a 12 quarter lag is based on the fact that the monetary policy reaction function of the Fed typically uses a 12 quarter lag of monetary disturbances.



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