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# The demand for Divisia money in the United States: evidence from the CFS Divisia M3 aggregate

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## ABSTRACT

In this paper, we analyse the demand for real money balances in the United States for the period 1990Q1–2017Q2 using a novel Divisia monetary aggregate developed by Barnett et al. (2013). Unlike simple-sum aggregates, Divisia aggregates take into account the different degrees of ‘moneyness’ of each monetary asset. In addition,



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**KEYWORDS:** Divisia money demand, monetary aggregate, cointegration

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## Disclosure statement

No potential conflict of interest was reported by the authors.

## Correction Statement

This article has been republished with minor changes. These changes do not impact the academic content of the article.

## Notes

<sup>1</sup> Sources: <https://research.stlouisfed.org/> and <http://www.centerforfinancialstability.org/>.

<sup>2</sup> The nominal series has been deflated using the GDP deflator.

<sup>3</sup> When using Divisia monetary aggregates, the preferred opportunity cost measure is

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<sup>4</sup> The use of dummy variables in this context finds justification in money demand literature. See, for instance, Dreger and Wolters ([2010](#)) or Anderson, Bordo, and Duca ([2017](#)).

<sup>5</sup> Their estimates range between 0.70 and 0.90 for broad money aggregates (CFS Divisia M2 and CFS Divisia MZM) over the period 1983–2017.

<sup>6</sup> Unlike our initial model, this model excludes the deterministic trend for two reasons. First, when we include the trend, the variable representing the transactions demand for money becomes negative. Second, the opportunity cost of money, as measured by the three-month US Treasury Bill, becomes non-significant. These two results are at odds with both the theoretical and empirical literature on money demand, suggesting that the model is mis-specified when the trend is introduced.

## Additional information

### Funding

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