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

Gabriel De La Fuente , Luis P. De La Horra & Javier Perote


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ABSTRACT

In this paper, we analyze the demand for Divisia money in the United States for the period 1960-2018. We use the Barnett and Gorton (1986) method to construct the Divisia M3 aggregate. We provide evidence that the demand for Divisia money in the United States follows a two-stage process. In the first stage, the demand for Divisia money is constant. In the second stage, the demand for Divisia money increases. Consistent with the two-stage hypothesis, the demand for Divisia money can be explained by the two-stage process.

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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

¹ Source [stability.org/](#)

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⁴ 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](#)).

⁵ 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.

⁶ 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

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