

(ii)

CONTENTS

| | <u>Page</u> |
|---|-------------|
| I. INTRODUCTION | 1 |
| II. MONEY DEMAND EQUATIONS FOR THE MAJOR 7 OECD COUNTRIES | 2 |
| A. The standard money demand equation | 2 |
| B. Opportunity cost arguments of money demand | 4 |
| C. Results for the standard money demand equations with inflation expectations | 5 |
| D. Suppressing expected inflation | 5 |
| E. An overview of the results | 6 |
| III. THE ANALYSIS OF MONEY DEMAND STABILITY | 7 |
| A. The Chow test | 7 |
| B. Recursive regression tests | 8 |
| C. Moving regression and time trend tests | 8 |
| D. Change points and financial innovations | 9 |
| (1) United States | 9 |
| (2) Japan | 9 |
| (3) Germany | 9 |
| (4) France | 9 |
| (5) United Kingdom | 10 |
| (6) Italy | 10 |
| (7) Canada | 10 |
| E. An overview of the stability results | 10 |
| IV. PREFERRED EQUATIONS AND TEST OF THE LAG STRUCTURE | 11 |
| V. DYNAMIC SIMULATIONS OF VELOCITY | 14 |
| VI. CONCLUDING REMARKS | 17 |
| ANNEX | 20 |