

The Regional (Very Narrow) Money-Output Relationship: Panel Cointegration and Structural Breaks

Jun Nagayasu¹
University of Tsukuba

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Abstract:

This paper empirically studies the relationship between money and output using Japanese regional (prefectural) data from 1990 to 2005. Taking account of multiple breaks in the panel cointegration approach, we provide evidence of an unstable relationship and point out three major breakpoints which coincide with some historic events. Furthermore, when this standard relationship is extended to include wealth and financial innovation/sophistication factors, the model is found to be cointegrated. Finally, while our results are sensitive to the model specification, income elasticity stays between zero and one, and interestingly, industrial prefectures seem to raise the level of income elasticity.

JEL classification:

Keywords: Money demand, panel cointegration, structural breaks

¹ Jun Nagayasu (corresponding author), Graduate School of Systems and Information Engineering, University of Tsukuba, 1-1-1 Tennodai, Ibaraki 305-8573 JAPAN. Email: nagayasu.jun.gn@u.tsukuba.ac.jp. Tel/Fax: +81 29 853 5067. This paper was prepared for the biannual conference of the Japan Economic Association (Kanagawa, 2009) and the Japan Society of Monetary Economics (Kagawa, 2009).