

Money Velocity and Macroeconomic Fluctuation

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Abstract

In this study, we investigate the role of money and its velocity in response to technology, money supply, and money demand shocks. Our main findings are as follows. First, we observe the correlation between money and its velocity declines subsequently entering the post-WWII period. Furthermore, the positive link of money with output and price gets weakened, whereas the relationship of the velocity of money with output and price is consistently positive. Second, the degree of accommodation by the central bank to technology shocks becomes limited since the Great Moderation period. Third, the velocity of money decreases in response to expansionary monetary policy shocks during the Great Moderation period.

Keywords : Quantity theory of money, money velocity, time-varying parameter VAR

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