

bringing in explanatory variables not easy to deal with in single country studies, such as the inflationary climate and the role of "inside money."⁸ It also avoids some of the statistical difficulties inherent in time series. It is beset, on the other hand, by the uncertain comparability or total unavailability of data for many countries. Country specific influences are troublesome, and the need to avoid extreme heteroscedasticity makes it necessary to employ some of the data in ratio form. Thus what is investigated is not the demand for money as such, but the demand for money relative to income.

The sample employed is limited to 43 countries for which some sort of interest rate could be found. The period covered by the dependent variables is 1959–1963; that covered by the explanatory variables is 1958–1963 and for some 1954–1963. The findings apply only, of course, to the countries and the period covered. The results are stated next; the procedures appear in the Appendix.

The regressions for the money/income ratio and some of its components that seemed to give the most satisfactory fit are given in Table 1. These data suggest the interpretations that follow.

Demand for Money

1. The demand for money, as inferred from the money/income ratio, is positively related to per capita income, for both definitions of money. This confirms results obtained in 1951 by Ernest Doblin⁹ as well as the findings of an unpublished study by Gurley and Shaw.¹⁰ The elasticity of the money/income ratio with respect to per capita income, [taken at the intersection of the arithmetic mean for M_1/Y and $(M_1 + M_2)/Y$ and the geometric mean for Y_p/N] is 0.15 for M_1 and 0.31 for $M_1 + M_2$. That is, an increase of \$100 in Y_p/N from its geometric mean of \$712 will raise M_1/Y from 0.2175 to 0.2222 and will raise $(M_1 + M_2)/Y$ from 0.3955 to 0.4127. These

⁸ Inside money, in the terminology of Gurley and Shaw, is money created by monetization of private debt. Cf. John G. Gurley and Edward S. Shaw, *Money in a Theory of Finance*, The Brookings Institution, Washington, D.C., 1960. In this study, the ratio of the banking system's claims on the private sector to total assets is used as a proxy for inside money. Monetization of government debt and of international reserves represents "outside money."

⁹ Ernest Doblin, "Ratio of Income to Money Supply," *Review of Economic Statistics*, August 1951, p. 201.

¹⁰ John G. Gurley and Edward S. Shaw, "The Impact of Economic Development on Financial Structure: A Cross Section Study" (unpublished manuscript).