

figures imply an elasticity of demand for money with respect to income moderately in excess of unity, by either definition, the elasticity of the broad definition being of course higher. Money appears to have been, for these countries and years, a "luxury."

The demand for time deposits, expressed as a ratio to income, is positively related to per capita income, as might be expected. The demand for currency, also as a ratio to income, is negatively related, which is similarly plausible.

2. The demand for money is negatively related to inflation. The elasticity of M_1/Y with respect to inflation is -0.071 and that of $(M_1 + M_2)/Y$ is -0.103 (at the point of means): a rise of one percentage point in the rate of inflation above its mean value of 5.2% reduces M_1/Y from 0.2175 to 0.216 and $(M_1 + M_2)/Y$ from 0.3955 to 0.3914 . The effects are small but significant. The higher elasticity of money broadly defined is of course to be expected. The impact of inflation on velocity has been demonstrated, for hyperinflation, by Phillip Cagan¹¹ and, for the general case, by Maurice Allais.¹²

3. The demand for money, defined as M_1/Y , is negatively related to the "inside money ratio." The broader definition is positively related. Since both coefficients are significant at the 5% level, this finding should perhaps not be altogether ignored. A negative relation seems in accordance with expectations. In an economy where a large part of the money supply derives from private borrowing, the pressure of credit rationing is likely to encourage economy in the holding of cash balances. Monetization of private debt, moreover, usually adds more to the liquidity of an economy than does monetization of public debt if, in the absence of such monetization, the same amounts of public and private debt, respectively, had to be held by the non-bank public. Less monetization of private debt would then be required for a given increase in liquidity. In this respect, the finding bears upon the issue of "money versus credit" as a policy target—does the source of money creation make a difference? But since this reasoning does not apply to international reserves, the second source of outside money, any conclusions are bound to be highly tentative.

¹¹ Phillip D. Cagan, "The Monetary Dynamics of Hyperinflation," in Milton Friedman, ed., *Studies in the Quantity Theory of Money*, University of Chicago Press, Chicago, 1956, pp. 26–117.

¹² Maurice Allais, "A Restatement of the Quantity Theory of Money," *American Economic Review*, December 1966, pp. 1123–1157.