

Liquidity Effect : Comparing the Simple Sum and the Divisia Monetary Aggregates.

Abstract

This paper tries to look into the liquidity effect by the use of VAR. In this paper there is a comparison that is been made between different monetary aggregates, that is, the simple sum and Divisia monetary aggregates, and trying to see which kind of aggregate shows liquidity effect better and also looking at the broader and the narrow money sum of both simple sum and Divisia aggregate. In this analysis it was found that the narrow measure of the simple sum M1 shows liquidity effect and the broader aggregate of simple sum M3 does not show liquidity effect. When looked at Divisia monetary aggregate both the narrower aggregate and broader aggregate show liquidity effect but the broader aggregate M4 shows stronger liquidity effect.