Money and velocity during financial crises: From the great depression to the great recession

Richard G. Anderson\textsuperscript{a}, Michael Bordo\textsuperscript{b,c}, John V. Duca\textsuperscript{d,e,*}

\textsuperscript{a} School of Business and Entrepreneurship, Lindenwood University, St Charles, Missouri, USA
\textsuperscript{b} Rutgers University, 7 College Ave, New Brunswick, NJ 08901, USA
\textsuperscript{c} National Bureau of Economic Research and Hoover Institution, Stanford University, 450 Serra Mall, Stanford, CA 94305, USA
\textsuperscript{d} Research Department, Federal Reserve Bank of Dallas, Dallas TX 75265, USA
\textsuperscript{e} Economics Department, Southern Methodist University, 3300 Dyer Street, Dallas TX 75025, USA

\textbf{A R T I C L E   I N F O}

Article history:
Received 29 February 2016
Revised 3 March 2017
Accepted 27 March 2017
Available online 6 April 2017

JEL codes:
E410
E500
G11

Keywords:
Money demand
Financial crises
Monetary policy
Liquidity
Financial innovation

\textbf{A B S T R A C T}

This study models the demand for a broad monetary aggregate (M2) from the Great Depression through the Great Recessions. Key to the model is the interaction between a measure of time-variation in economic agents' perceived financial risk and an index of the cost of portfolio adjustment. The finding of a useful money demand relationship suggests that skepticism regarding the indicator role of a broad, liquid money aggregate as a policy guide may be exaggerated. Further, our model provides some guidance for policymakers who face the challenge of unwinding large balance sheets as risk premia return to normal and velocity adjusts.

\textcopyright 2017 Elsevier B.V. All rights reserved.

1. Introduction

The Great Depression and the Great Recession are the defining American financial crises of the past century.\footnote{We thank Jens Christensen, Benjamin Doring, Samuel Reynard, and participants at the 2014 Paul Woolley Conference in Sydney, 2015 FMA European Conference, 2015 Bundesbank Workshop on Central Banks and Crises—Historical Perspectives, the 2015 Swiss Society for Financial Market Research Conference, UCLA, and the 2015 conference “Large-Scale Crises: 1929 versus 2008” for suggestions and comments. We thank J.B. Cooke and Elizabeth Organ for excellent research assistance. This paper reflects an intellectual debt to many monetary economists, including Milton Friedman, Stephen Goldfeld, Richard Porter, Robert Rasche, Anna Schwartz, and James Tobin. We thank three anonymous reviewers for their comments. The views expressed are those of the authors and are not necessarily those of the Federal Reserve Bank of Dallas or the Federal Reserve System. Any errors are our own.} Although Federal Reserve policy was better in the latter than the former, it did not meet its full employment and price stability objectives: unemployment was persistently higher, and inflation persistently lower, than desired.\footnote{Corresponding author.}

\texttt{E-mail addresses: rganderson@alum.mit.edu, rganderson.stl@gmail.com (R.G. Anderson), bordo@econ.rutgers.edu (M. Bordo), john.v.duca@dal.frb.org (J.V. Duca).}

\footnote{In a related paper, Bordo and Haubrich (2012) discuss other American financial crises.}

\footnote{In the Great Depression, the unemployment rate peaked near 25\% (Lebergott, 1957) and the CPI fell for five straight years for a cumulative 25\% decline. In the Great Recession, the monthly civilian unemployment rate, not seasonally adjusted, peaked at 10.6\% in January 2010 and averaged 7.5\% during 2009–2010.}

\url{http://dx.doi.org/10.1016/j.jedc.2017.03.014}

0165-1889/© 2017 Elsevier B.V. All rights reserved.
the Great Recession reflected a shortfall in nominal demand (Figs. 1 and 2). Our study asks whether monetary policy, after allowing for shifts in money demand and the effects of unconventional monetary policy, in fact provided adequate liquidity during the crisis.

The Great Depression and the Great Recession, like many financial crises, were marked by two mutually self-reinforcing factors: sharp increases in risk premia and flights to quality. Bagehot (1873) famously observed that during the crises he observed from 1825 to 1866 the public would be satisfied only with gold or Bank of England notes; no other asset would

---

2016. Inflation, measured by the Q4/Q4 change in the seasonally-adjusted PCE all-items chain-price index, peaked at 2.7% in 2011, fell to 0.43% in 2015, and averaged 1.41% during 2009–2016. On recent policy goals, see Federal Open Market Committee (2015).
دریافت فوری
متن کامل مقاله
امکان دانلود نسخه تمام متن مقالات انگلیسی
امکان دانلود نسخه ترجمه شده مقالات
پذیرش سفارش ترجمه تخصصی
امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
امکان دانلود رایگان ۲ صفحه اول هر مقاله
امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
دانلود فوری مقاله پس از پرداخت آنلاین
پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات