Introduction to the Transaction Edition

Money Demand for

Behavior of the Velocity of Circulation

An Analysis of the Long-Run

New Brunswick (U.S.A.) and London (U.K.)

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Transaction Publishers
The empirical puzzle

The 1990s and 1970s can we predict a new cycle of interest in velocity?

In Chart 1 we add data for the period 1975-2000. For the coun-

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The Nature of the Demand for Money

Introduction to the Transaction Function

We are familiar with the fact that people purchase goods and services from one another. This exchange of goods and services is facilitated by the use of money. Money serves as a medium of exchange, a unit of account, and a store of value. It is the key factor that enables individuals and businesses to conduct transactions without having to barter directly.

Money can be divided into two categories: short-term money and long-term money. Short-term money is used by individuals and businesses to make day-to-day transactions. Long-term money, on the other hand, is used for investments and other long-term purposes.

The demand for money is influenced by a number of factors, including the interest rate, the level of income, and the price level. When the interest rate is high, people are less likely to hold money, as they can earn a higher return by investing it. When income is high, people are more likely to hold more money, as they have more money to spend. When the price level is high, people are less likely to hold money, as it loses its purchasing power.

The supply of money is determined by the central bank, which sets the interest rate and controls the money supply. The central bank can increase or decrease the money supply by buying or selling government bonds, or by changing the reserve requirements for banks.

In summary, the demand for money is influenced by a number of factors, while the supply of money is controlled by the central bank. These factors interact to determine the overall demand and supply of money in an economy.
Introduction to the Francophone Edition

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