

# **Demand for Money in the United States: Stability and Forward-Looking Tests**

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## **Abstract**

This paper shows that demand for money, besides interest rate and personal consumption, is a function of fiscal variables like deficits, debt as well as foreign-financed debt and it is stable over the short and long run. It was found that agents in the market are forward-looking, and their expectations are formed rationally. This also means that even though the parameters of money demand are stable according to the stability test results they can be unstable as agents change their behaviour for any change in the policy. This means the contemporaneous policy variable is not super-exogenous.

*Keywords:* Demand for money, policy regime changes, forward-looking agents, stability

*JEL Classification:* E41, E52