

Monetary aggregates play little role in the conduct of monetary policy

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In conventional macroeconomic thinking, the money supply is considered the main determinant of long-run inflation. A variety of monetary aggregates have been proposed to measure the money supply. Yet, nowadays, monetary aggregates play little role in monetary policy deliberations at most central banks. A new study in the *Journal of Money, Credit and Banking* examines the leading arguments for assigning an important role to tracking the growth of monetary aggregates when making decisions about monetary policy. The analysis finds that none of the arguments provides a compelling reason to assign a prominent role to monetary aggregates.

Michael Woodford of Columbia University reviews several of the most important arguments that have been made for paying attention to money, considering both the omissions of an analysis without money and the advantages of the information revealed by monetary trends.

While they do have their uses, Woodford contends that monetary aggregates should not be used as policy targets or assigned a prominent role in monetary policy strategy.

The economy's current condition and projected evolution under alternative policy paths may depend on a large number of unobserved variables. Monetary aggregates, along with other indicators, can be used to provide information about these unobserved variables, though there is little theoretical or empirical ground to think that these measures are especially revealing about any of the unobserved variables that are most

crucial for accurate projections. Monetary aggregates thus may help to determine the appropriate policy, but only along many other variables and not in a way that would make them targets in the conduct of policy.

Source: Wiley

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