

Dealing a blow on monetarism

August 27 2020



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This year's third issue of the *Financial Journal* opens with an article by Marina Malkina, Professor at the Department of Economic Theory and Methodology of the UNN Institute of Economics and Entrepreneurship, and Igor Moiseev, research assistant at the Center for Macroeconomics

and Microeconomics of the same Institute. Their article entitled "Endogeneity of Money Supply in the Russian Economy in the Context of the Monetary Regime Change" is published in the Monetary Policy section.

Endogenous [money](#) (from Greek 'endon,' meaning 'internal'), according to the established definition, is money created inside the economy as a response to its impulses; the economy in this case is considered a closed and autonomous unit.

"The article deals with the endogeneity of money supply in the Russian economy in the context of the changes made to the rules of monetary regulation. We summarized and analyzed the basic concepts of the modern theory of endogenous money, and described the approaches of various researchers to studying the impact of financial innovations and changes in the principles of monetary regulation on money supply endogeneity," Marina Malkina notes.

In the empirical part of the research, in order to test the hypothesis on the endogenous origin of the money supply in the Russian economy in 2010-2018, the authors applied the Granger causality test and the Johansen cointegration test as well as VAR and VECM models. The study was based on the monthly data for the monetary sphere (M2 monetary aggregate, monetary base, and money multiplier), the banking sphere (loans, deposits, and interest rate) and the transactional sector of the economy (wholesale and retail turnover).

The time series were split into two intervals: 2010-2013 and 2014-2018, when a change in the monetary regime occurred (introduction of the key rate, change in the refinancing system, transition to inflation targeting and floating exchange rate of the rouble).

"As a result of our study, we have obtained evidence of the endogenous

origin of the money supply in the Russian economy for both periods of time, and the hypotheses of structuralism and preference for liquidity have been confirmed. In the short term of 2010-2013, it was mainly commercial banks that reacted to an increase in money demand (through money multiplier); however, in the long run the Central Bank of Russia prevailed (through changing the monetary base)", Igor Moiseev continues.

In 2014-2018, the Bank of Russia demonstrated an efficient adjustment of money supply toward money demand, which was reflected in the response of the monetary base in the short term.

Meanwhile, in this period the role of commercial banks in lending was increased through operational managing of their own resources, which was reflected in the reaction of the money multiplier to the growth of business activity in the country.

These changes indicated an amplification of money supply endogeneity in the Russian [economy](#). In addition to passive adaptation, a particular type of activism was revealed by Lobachevsky University researchers in the monetary sphere: the initiative of money emission came not so much from the monetary authorities as from commercial banks fighting for a [market share](#) in the face of intensified banking competition and reduced bank margins.

More information: *Financial Journal*, [DOI: 10.31107/2075-1990-2020-3](#)

Provided by Lobachevsky University

Citation: Dealing a blow on monetarism (2020, August 27) retrieved 29 June 2024 from

<https://phys.org/news/2020-08-monetarism.html>

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