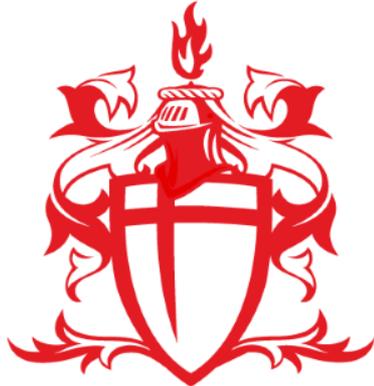




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Discussion of *“UK broad money growth in the long expansion---what can it tell us about the role of money?”* By Michael McLeay and Ryland Thomas

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Structure of paper

- Survey of discussions of role of money
- Estimation long-run SVAR model and decomposition of factors driving money, lending, GDP and inflation.
- Estimation of a shorter-run sectorally disaggregated model and use of this to look for monetary spillovers.
- There is a lot in this paper and all of it well done, but I will focus on the second section as this raises some interesting issues about what was driving what.



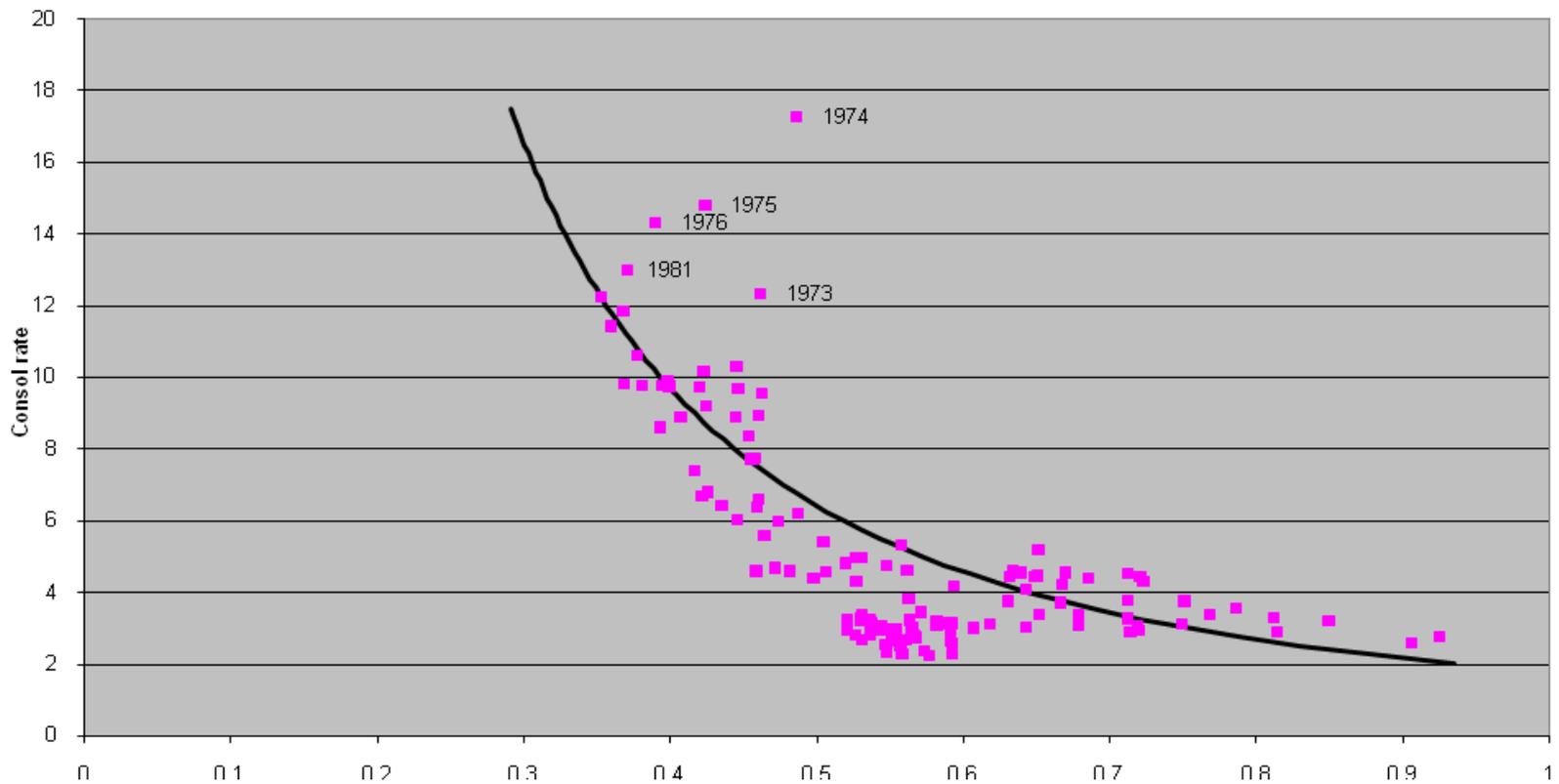
SVAR or SVEMC

- The approach involves seeking for cointegrating relationships between the obvious macro variables.
- One of these looks like a money demand equation and others link interest rates and asset prices and output.
- One positive outcome that is not commented on but is of some interest is that there does seem to exist a long run equation that would be recognised as money demand.
- Though note that MONEY now excludes intermediate OFCs.....Paul Mizen and I have used retail M4 and get surprising results.



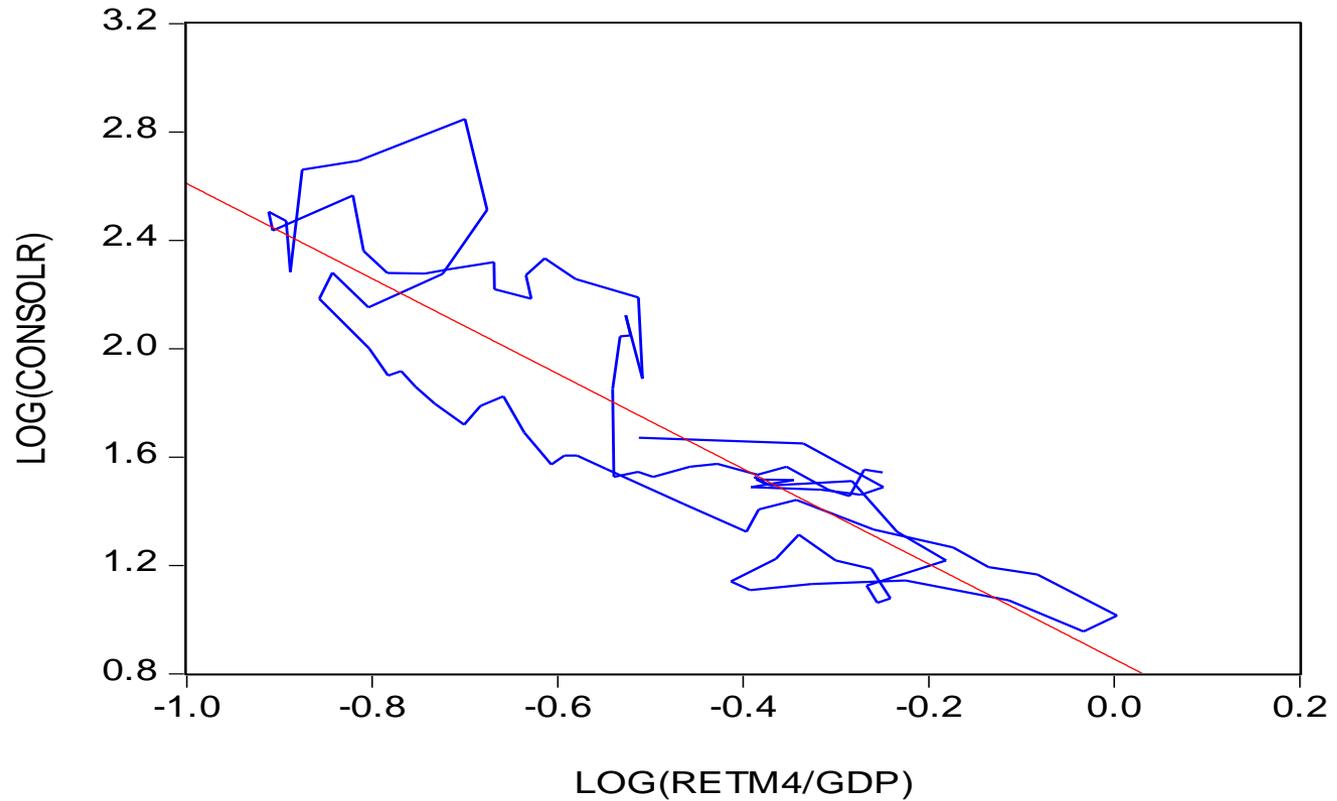
Replication of Artis and Lewis for the period 1920-2000

Chart 1: Deviations from long run money demand





Inverse velocity X-plot 1920-2008 using retail M4





Historical decomposition

- Attempts to decompose the drivers of money, lending, GDP and inflation.
- This does find plausible attribution for wholesale funding and bank risk taking in Barber boom and the mid-2000s.
- BUT the impact of monetary policy seems minimal and not at the time one might expect.
- AND supply shocks seem to be more important in business cycles than demand shocks.

Trend+pre-1967 shocks
 Aggregate Supply
 Aggregate demand
 Monetary policy

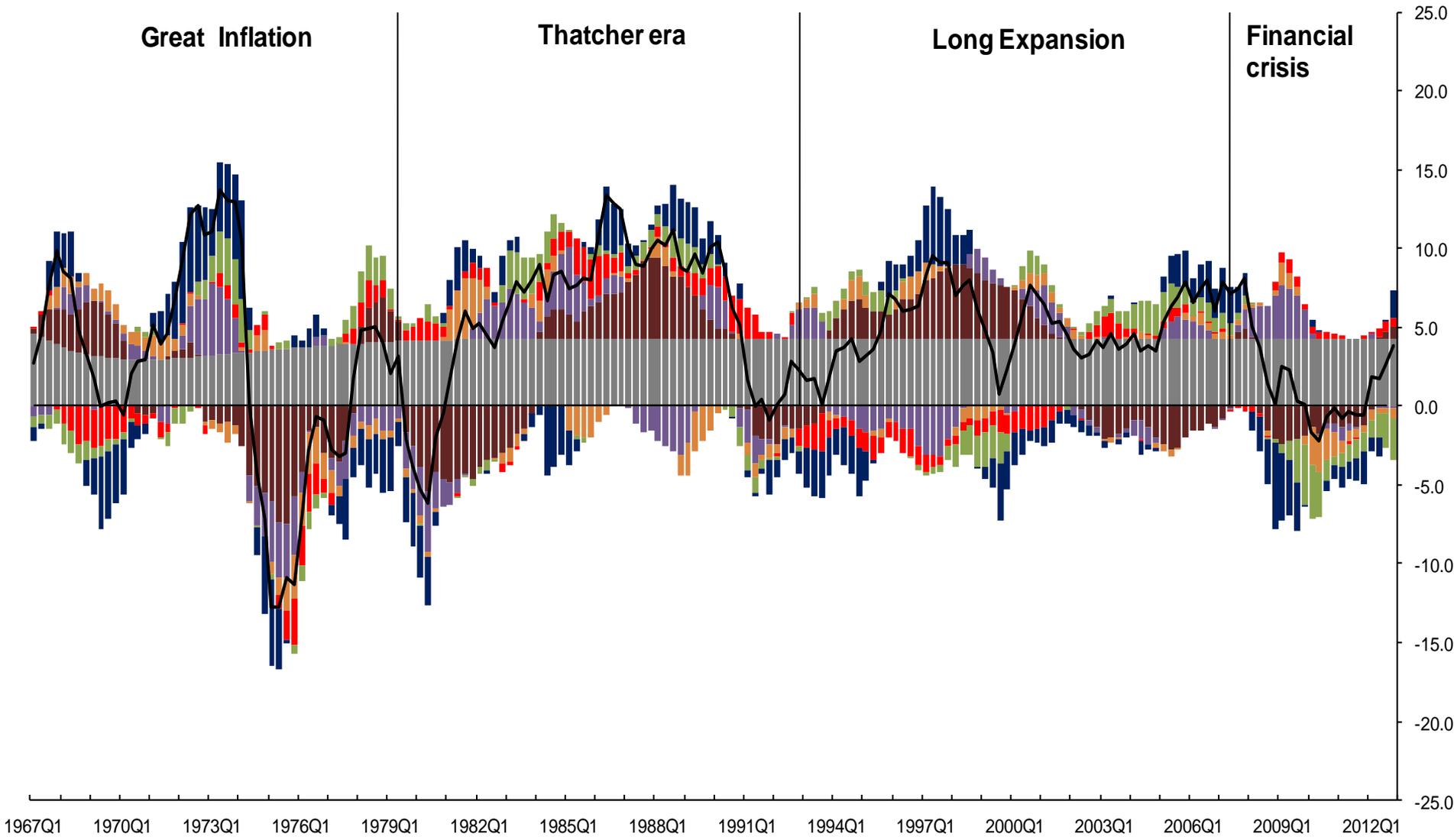
Cost of Intermediation
 Wholesale funding
 Bank risk taking
 Data
 percentage chg on a year ago

Great Inflation

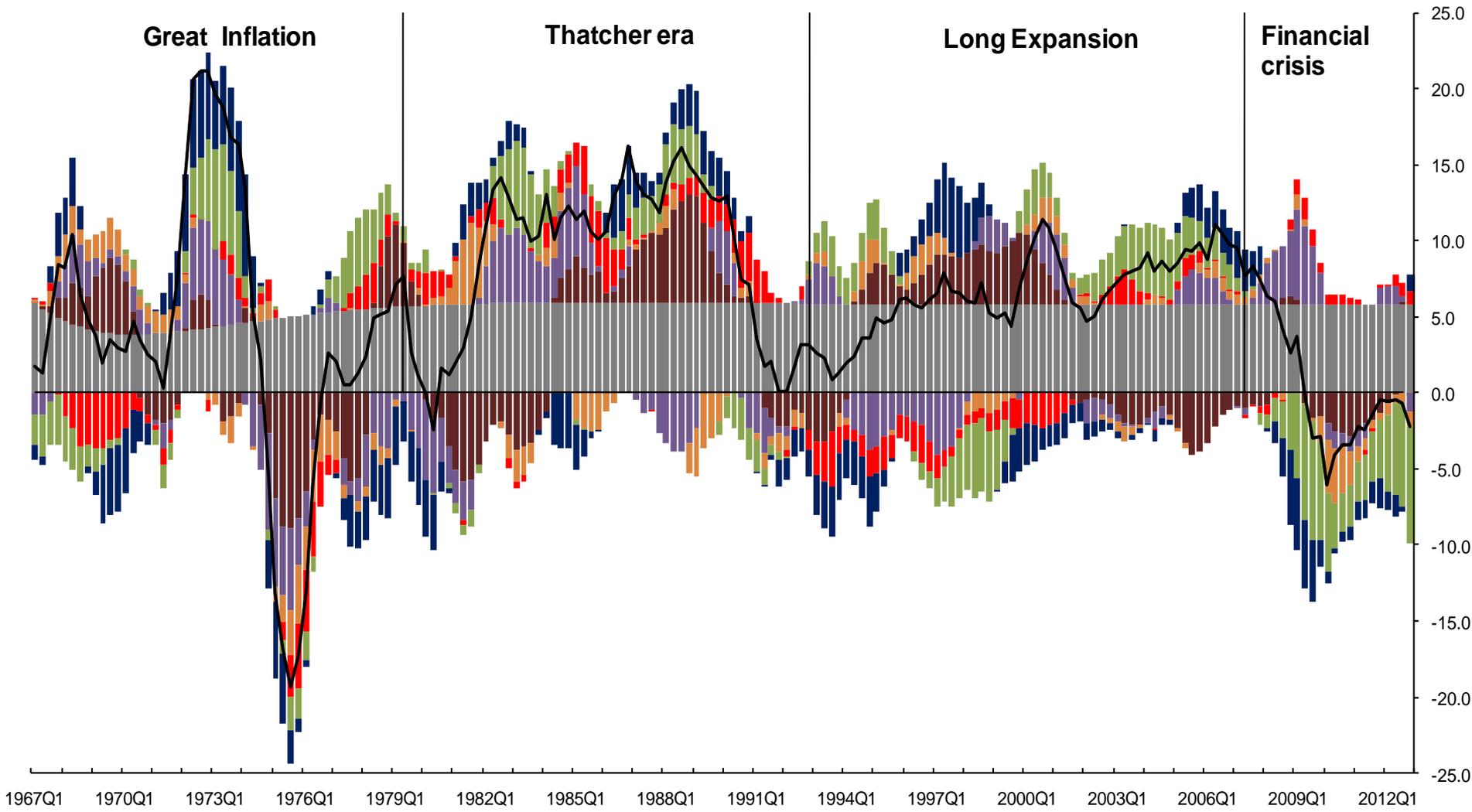
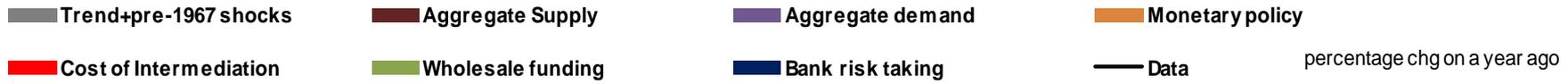
Thatcher era

Long Expansion

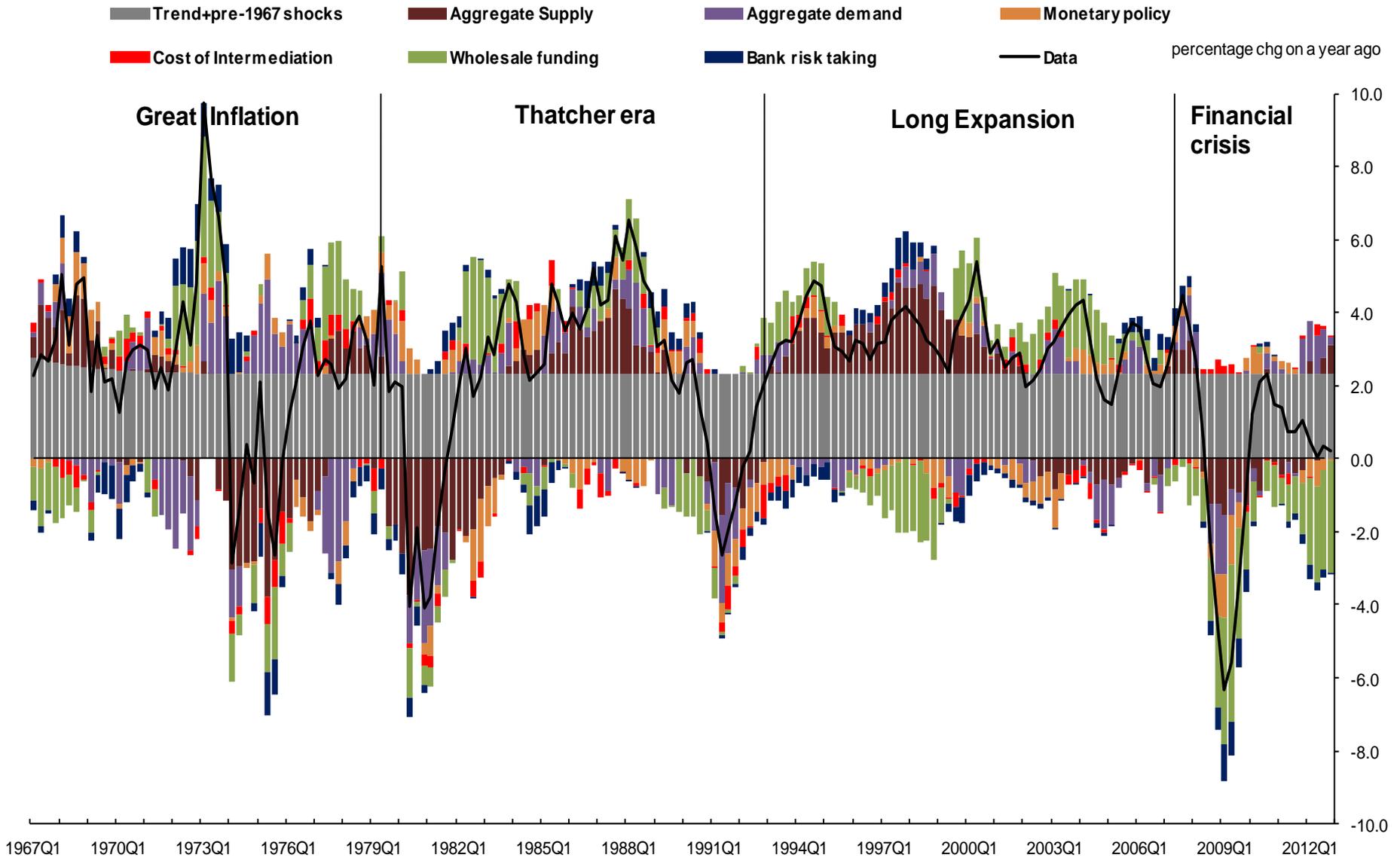
Financial crisis



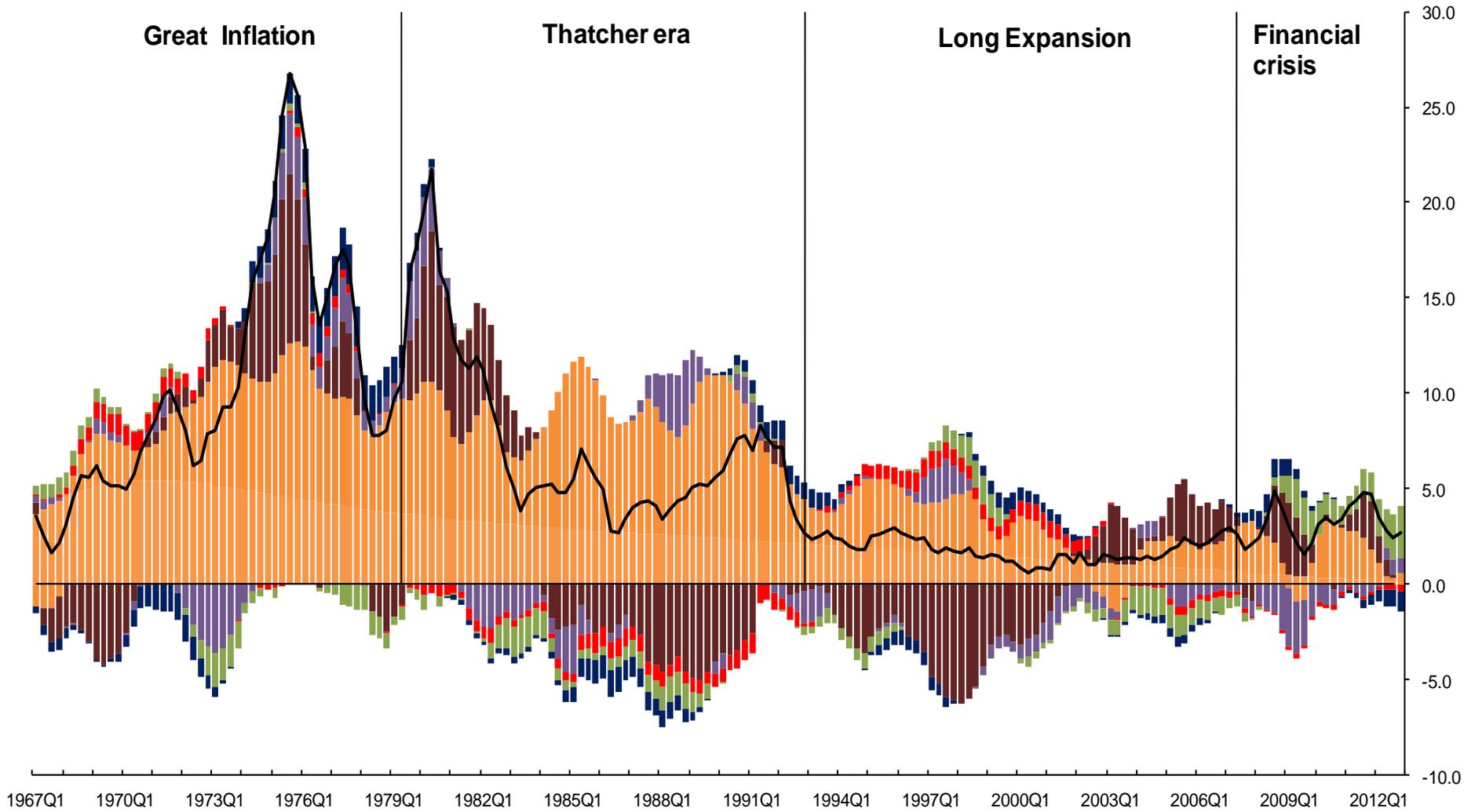
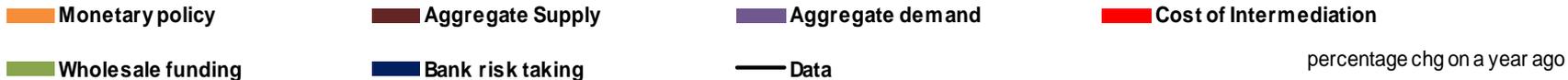
M4x



M4 lending



Real GDP growth



Inflation



Other drivers

- It would be nice to identify:
 - Fiscal policy shocks
 - World demand shocks
- Also: how do you judge factors such as the impact of regime credibility and regulatory changes such as CCC, Big Bang and the abolition of exchange controls?



Conclusions

- Great paper that offers a lot of insight.
- It does succeed in providing convincing evidence of links from monetary variables to real activity and inflation.
- This does suggest that monetary variables have some short-term leading indicator properties
- AND that events in the financial sector have real impacts.
- BUT it is not clear what message this has for monetary policy, or for the design of monetary policy regimes.
- There may however be implications for Macro-prudential policy.