CHAPTER VI

Conclusion

From the aggregate and disaggregate empirical econometric analyses that we have carried out in chapters IV and V based on the theoretical models of business demand for money discussed in chapter III, we can conclude the following:

(i) With regard to the question that we raised in chapter I as to whether there exists a stable business demand function for money and if so what are the key variables that appear in this, our answer is in the affirmative and the key variables that appear in it are (i) the current income (ii) the cyclical changes in the rate of utilization of assets, capital intensity and the internal rate of return; all of which can be effectively measured by the proxy variable wealth-income ratio (W/Y) (iii) the rate of interest on the money substitutes namely Government securities.

(ii) With regard to the question whether there exists economies of scale in holding money, the empircal findings both at the aggregate and disaggregate levels show that there exists significant economies of scale in holding money balances even though at the industry level disaggregation a few industires did not show it. The income elasticity of demand for money for a majority of industries and sectors at the disaggregate level and for all five types of aggregates at the aggregate level comes out to be less than unity.

(iii) Empirically the most appropriate way of defining money would be in terms of a broader definition namely cash balances plus demand deposits plus time deposits with the commercial banks. Invariably for all the models the broader definition of money gives a better predictive performance ($\bar{R}^2$) and a more stable demand function.

(iv) The excellent performance of the modified Meltzer model in predicting the business demand for money both at the aggregate and disaggregate levels, shows the strong micro-economic foundations of the Meltzers' model in general.

(v) Contrary to Milton Friedmans' contention that the rate of interest is an unimportant variable in affecting the demand for money, we find our empirical findings emphasize that it is one of the most important variables which influence the business demand for money considerably which is shown by the higher elasticity it has (more than-1.5).

(vi) The effect of cyclical changes in such variables as, the capital intensity, rate of utilization of assets and the internal rate of return on the business demand for money has been aptly measured by our proxy variable wealth-income ratio (W/Y).

(vii) Our empirical study further points out that size and pattern of ownership (whether public limited or private limited or Government owned) do not influence the money demand function in any qualitative way. Only the estimated elasticity parameters differ slightly that too not statistically significant.