The Demand For Money and the Effectiveness of Monetary Policy: The Jordanian Case.

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Abstract

A vast amount of theoretical and empirical studies in the literature testifies the fact that economists have widely recognized the importance of a stable money demand function for monetary theory and the efficient workings of monetary policy. The importance of the demand function for money stems from the vital role that it plays in the monetary transmission mechanism which links variation in the money supply to the ultimate target variables (i.e. income, prices and employment). The impact of the structural changes in the money market in Jordan upon the demand function for money investigated by a use of a test of stability developed by Chow (1960). For this purpose, six demand models for money are specified and estimated from the Jordanian quarterly time-series data for the quarters 1969:1 through 1990:4. Throughout this empirical investigation, ordinary
least squares (OLS) analysis is used to estimate the coefficients of each demand equation.

The empirical findings of this study show that interest rates are important arguments in the money demand function, income variable defined as Gross National Product (GNP) performed extremely good on theoretical and statistical grounds, and nominal stock adjustment model is more suitable for the Jordanian case than log linear model for the $M_1$ and $M_2$ definitions of money.