A Money Demand Function

Answers to the Exercise

$$r_R = \frac{r_N - \eta^e}{1+\eta^e} = \frac{2.0-0.5}{1.0+05} = 1 = 100\%$$

A Specific Money Demand Function

$$m_{it}^d = \xi \frac{1+r_N}{r_N} c_{it}$$

$$c_{it} = \frac{1}{(n-i+1)+\xi(n-i)} z_i$$

An Illustration

- y_2=\$100,000, y_3=\$200,000, y_1=y_4=0
- r_N = 200%, η^e=50%
- ξ = 1/3

The Real Rate

$$r_N = r_R + \eta + r_R\eta$$

$$r_R = \frac{r_N - \eta^e}{1+\eta^e} = \frac{2.0-0.5}{1.0+05} = 1 = 100\%$$

The Demand for Money

Calculations in Real terms

	(1) Non-monetary Assets Carried Over	(2) Carry over Plus Real Return	(3) Money Balances Carried Over	(4) Wage Income	(5) Present Value of Future Income	(6) Wealth	(7) C	(8) Money Hold-ings	(9) Assets, End of Period	Price Level
1					$100	$100.0	$20	$10	$(30.0)	1.000
2	$(30.0)	$(60.0)	$6.7	$100	$200	$146.7	$40	$20	$(13.3)	1.500
3	$(13.3)	$(26.7)	$13.3	$200	$200	$186.7	$80	$40	$66.7	2.250
4	$66.7	$133.3	$26.7			$160.0	$160			3.375

The Demand for Money

Calculations in Real terms

	(1) Non-monetary Assets Carried Over	(2) Carry over Plus Real Return	(3) Money Balances Carried Over	(4) Wage Income	(5) Present Value of Future Income	(6) Wealth	(7) C	(8) Money Hold-ings	(9) Assets, End of Period	Price Level
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The Demand for Money

Calculations in Real terms

	(1)	(2)	(3)	(4)	(5)	(6)	('7)	(8)	(9)	
	Non-monetary Assets Carried Over	Carry over Plus Real Return	Money Balances Carried Over	Wage Income	Present Value of Future Income	Wealth	C	Money Hold-ings	Assets, End of Period	Price Level
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End

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Answers to the Exercise