

A Money Demand Function

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

A Specific Money Demand Function

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Where do we get this?

$$U = \log(c_1) + \dots + \log(c_n) + \xi \log(m_1) + \dots + \xi \log(m_{n-1})$$

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$$U = \log(c_1) + \dots + \log(c_n) + \xi \log(m_1) + \dots + \xi \log(m_{n-1}) + 0 \log(m_n)$$

Modifying the Consumption Function

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

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Key Properties

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$$1 + \frac{1}{r_N}$$
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ξ

- Reflects the utility people get from the *services* of money.
- Credit cards become more frequent
 - ξ decreases
- People become frightened of the stock market
 - ξ increases

End

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