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“Risky” Monetary Aggregates for the UK and US

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“Risky” Monetary Aggregates for the UK and US

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Abstract

We extend the scope of monetary aggregation beyond capital certain assets that make up central bank data sets and identify groups of assets that form monetary aggregates composed of both capital certain and risky, capital uncertain, assets. We construct monetary aggregates for the US and UK using a superlative index and relax a key assumption of the Consumption Capital Asset Pricing Model (CCAPM), a one year planning horizon, by using forecasted returns on risky assets. Our new risky monetary aggregates perform well in VAR tests. We recommended exploring risky assets as providers of liquidity services in future research on this topic.

Keywords: Risk, Capital Asset Pricing Model, Liquidity, Divisia Money

JEL Codes: E43, G12, C43, C51

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