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Monitoring Money for Price Stability*

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Abstract

In this paper, we use a simple model of money demand to characterize the behavior of monetary aggregates in the United States from 1960 to 2016. We argue that the demand for the currency component of the monetary base has been remarkably stable during this period. We use the model to make projections of the nominal quantity of cash in circulation under alternative future paths for the federal funds rate. Our calculations suggest that if the federal funds rate is lifted up as suggested by the survey of economic projections made by the members of the Federal Open Market Committee (FOMC), the fall in total currency demanded in the next two years ranges between 50 and 200 billion. Our discussion suggests that specific measures by the Federal Reserve to absorb that cash could be worth considering to make the future path of the price level consistent with the price stability mandate.

Keywords: Inflation, Money Demand, Currency in Circulation
JEL codes: E31, E41, E51

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