

Demand For Money Under Economic Reforms in India: A Further Empirical Evidence

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The main objective of this paper is to explain the interface between determinants of demand for money and economic reforms in India, and the policy concerns it engenders. The analysis shows that the monetary policy actions under economic reform in India have mixed effects on the determinants of demand for money in various functional combinations. Though it supports the hypothesis that the interface between money market rate as the determinant of demand for money and economic reform is favorable and encouraging, it is unfavourable in the case of other determinants such as bond yield rate and expected rate of inflation. Thus, monetary actions in India have been regulating the broad money in an effective manner through changes in the money market rate during the reform period.

Money is generally considered as a medium of exchange. It is regarded by the classical and neo-classical school simply as a convenient device for facilitating transactions in goods and services. Since, money must be exchanged for goods and services, it does not affect the relative prices of commodities. In contrast to classical economists, Keynes has shown money has a function of store of value. Keynes argues that money is not merely spent but it is also viewed as a form of wealth or assets which can be easily converted into cash or any other form of wealth at any time. - Most of the empirical analyses on the demand for money has been explored in the light of basic axioms of classical, neo-classical and Keynesian theories. It is evident from the studies undertaken in India that demand for money is determined by Gross National Product (GNP), short-term and long-term rates of interest; and expected rate of inflation (Mammen, 1971; Avadhani, 1971; Arif, 1996). It is also important to note that most of these studies were carried out in the regime before the economic reform in India. Furthermore, the demand for money is a critical component in the formulation of monetary policy. It is also a stable demand function for money, which has long been perceived as a prerequisite for the successful control of monetary aggregates in the conduct of monetary policy. In this context, a study which could provide a further empirical evidence on demand for money under economic reforms in India is necessary.

Since, the nominal gross national product is considered to be the best measure of total money value of all goods and services traded in the economy, it seems safe to assume that higher the nominal GNP, the higher will be the demand for money. Indeed, an impressive amount of statistical evidence supports this supposition. But income is not the only factor affecting the demand for money, interest rates matter too. It is because money is only one of a variety of forms in which individuals hold their wealth. Holders

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