THE MONEY DEMAND IN BOLIVIA: LONG AND SHORT RUN ECONOMETRIC EVIDENCE FOR A COUNTRY WITH HIPERINFLATIONARY EXPERIENCE

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ABSTRACT

The inflationary volatility added in the specification of money demand function in Bolivia has many relevant implications: first, is not feasible reject the absence of structural changes even the severe change in the economic policy in 1985. Second, in order to the first implication, the estimated parameters are invariable within the monthly sample (1970 - 1994). Therefore, this estimated function can be used in simulation of economic policies.

Many works about the money demand in Bolivia incorporate dummys to explain the hyperinflationary process and many of this variables are measured with ad hoc criteria. In this paper the estimation work includes the theoretical determinants such income and inflation rate, and specific variables such VARINF - Recursive variance of inflation and the political changes (presidential elections).

In the empirical research I recurred to the general-to-specific methodology and the parsimonious model has the needed properties for simulation of economic policies. The causal relation study has crucial findings: the causal relation was debilitated during the hyperinflationary period but didn't was break.

The implications of VARINF can be used in another studies for countries with similar inflationary experiences. Many 'hysteresis' cases can be explained with the simple inclusion of VARINF. Additionally, the initial period to compute VARINF reflects strong assumptions about the inflationary memory and therefore VARINF is intimately related with credibility assumption