Endogenous and Exogenous Money: an empirical investigation from Iran

Jafar Haghighat*

This paper is is about money supply being determined by banking behaviour, or by the behaviour of central bank of Iran. That money is endogenously determined is a proposition of post-Keynesian (PK) economists suggesting that money supply is determined by the behaviour of commercial banks as banks adjust money creation in response to credit demands by the public. This theory challenges the monetarist view of exogenous money supply, where the central bank is said to control money supply. The empirical tests conducted begin with unit root and Johansen cointegration tests to test for stationarity of the variables and whether the variables are cointegrated, followed by vector error-correction models (VECM) and Granger causality tests to test whether there is one-way or bidirectional causality in the long run and in the short run. These tests are used to determine (1) whether money is endogenous or exogenous, (2) if money is endogenous, which of the three views of PK theory is supported in this study.

*Associate Professor of Economics and Director of Research Affairs Department, University of Tabriz, E-mail : haghighat@tabrizu.ac.ir,and Jafarhaghighat@yahoo.com,