

Abstract

The paper sets the neoclassical monetary business cycle model within endogenous growth, adds exchange credit shocks, and finds that money and credit shocks explain much of the velocity variations. The role of the shocks varies across subperiods in an intuitive fashion. Endogenous growth is key to the construction of the money and credit shocks because these have similar effects on velocity, but opposite effects upon growth. The model matches the data's average velocity and simulates well velocity volatility. Its Cagan-like money demand means that money and credit shocks cause greater velocity variation, the higher is the nominal interest rate.

<http://www3.interscience.wiley.com/journal/118531437/home>