

Validity of Laidler Hypothesis: Evidence from Selected High Income Countries

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Abstract

This study has investigated the validity of Laidler (1985) hypothesis, a long-forgotten issue, for 34 selected countries with various model specifications, updated data and vogue econometric techniques. Countries and data period (2000-2022) are selected based on the availability of data. We have applied panel data estimation techniques and the analysis is based on inequality of income distribution. The obtained results show that the Laidler hypothesis on money demand is highly valid. Precisely, the results indicate that inequality of income distribution decreases money demand, and the impact of this variable is higher than traditionally considered two variables, interest rate and income levels. The implication of this result is that central banks around the world should take into account the degree of inequality of income distribution, in addition to income and interest rate, in the money demand function during projection, estimation and forecasting of money demand of an economy. Otherwise, monetary policy may miss to achieve its desired targets. Further, as data used in the study are picked from almost all leading economies of all continents it can be assumed that the implication of this research is ubiquitous across developed and developing countries.

Key Words: Money Demand, Income Distribution Inequality, Panel Data, and Laidler Hypothesis.
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