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Comments on the Paper by Chick and Thomas

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This is an extremely interesting paper. The main point of the paper is to test some alternative assumptions about savings within the context of money demand equations. The work is at an early stage at this time, but the results look to be of some interest. The idea is a good one and deserves to be pursued more thoroughly than the authors have as yet done.

The three main weaknesses in the paper are: (1) the authors have written their paper as a reply to Gregory Chow rather than allowing it to stand on its own; (2) the authors use nominal values of the data rather than real values. The demand equation for money is a demand for real balances, not for nominal balances, and the regression should be run in such a way that the effects of prices are considered. Since the authors are concerned with short-term adjustments, I do not believe they should deflate all values by prices but instead they should allow the price to take on its own coefficient and possibly its own speed of adjustment. (3) The demand equation for money is generally written as a linear in logarithms equation. Chow deviated from this procedure by using both log linear and linear equations. I believe that linear equations are meaningless because it is not very useful to have long-term constant derivatives rather than long-term constant elasticities. Since some of the values of the variables are negative, the authors might consider using first differences of the logs rather than logarithms of the differences. At least some indication of this problem should be made, and some evidence offered to show that the results in the paper are not completely dominated by the observations for the last few years.
The paper starts with an introduction that relates the authors' work primarily to the work of Chow. The redrafted paper should begin with an introduction citing the developments in the last few years. The contributions of Friedman, Meltzer, Brunner and Meltzer, David Laidler, and Chow should all be mentioned. The authors' general criticism of Chow can be made and followed by a statement of what they intend to do. This would meet my suggestion that the authors should not reply to Chow but make a statement of their own contribution. The main contribution that I see is the test of alternative forms of a savings function when combined with the demand equation for money. I believe that this provides evidence on some of the important discussions in monetary theory of recent years, and the authors ought to spend more time trying to develop the importance of their results for that literature.