

## **Regional (very narrow) money-output relationship: panel cointegration and structural breaks**

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This paper empirically studies the relationship between money and output using Japanese regional (prefectural) data from 1990 to 2005. Taking account of multiple breaks in the panel cointegration framework, we provide evidence of an unstable relationship and point out potential breakpoints which coincide with some historic events. However, these breaks are not the cause of the breakdown of this relationship since even when these breaks are considered, no evidence of cointegration is obtained from the panel data. Therefore, the standard model seems to be misspecified. Indeed, when this simple relationship is extended to include both wealth and other prefecture-specific factors, the model is found to be cointegrated. Finally, while our results are sensitive to the model specification, income elasticity stays between zero and one, and interestingly, industrial prefectures seem to raise the level of income elasticity.

JEL Classification: E41

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