

Stability of demand of Bolivianos after the hyperinflationary process: 1986 – 1987

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ABSTRACT

This paper analyzes the stability of money demand after the hyperinflation registered in 1985 to verify the effectiveness of monetary policy considering that it pursues quantity objectives in the short and long term. The demand of real money balances is defined as a function of real income and the annualized quarterly rate of exchange rate depreciation, as the variable that measures opportunity cost of keeping cash. The stability of income elasticity of money demand as well as the relative stability in the parameter of depreciation are the results that would support the orientation of monetary policy in recent years: to assure an evolution of money supply compatible with inflation targeting and economic growth.