
Discussion of Money and Velocity During Financial Crises

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The views expressed in this presentation are my own and do not necessarily represent those of the SNB.

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Research Aim

- Explaining money velocity
& comparing the great recession to the great depression
- Major policy implications
 - Are there risks of inflation rising above target?
 - Particularly important as ZLB and non-conventional measures
- Topic authors are experts on

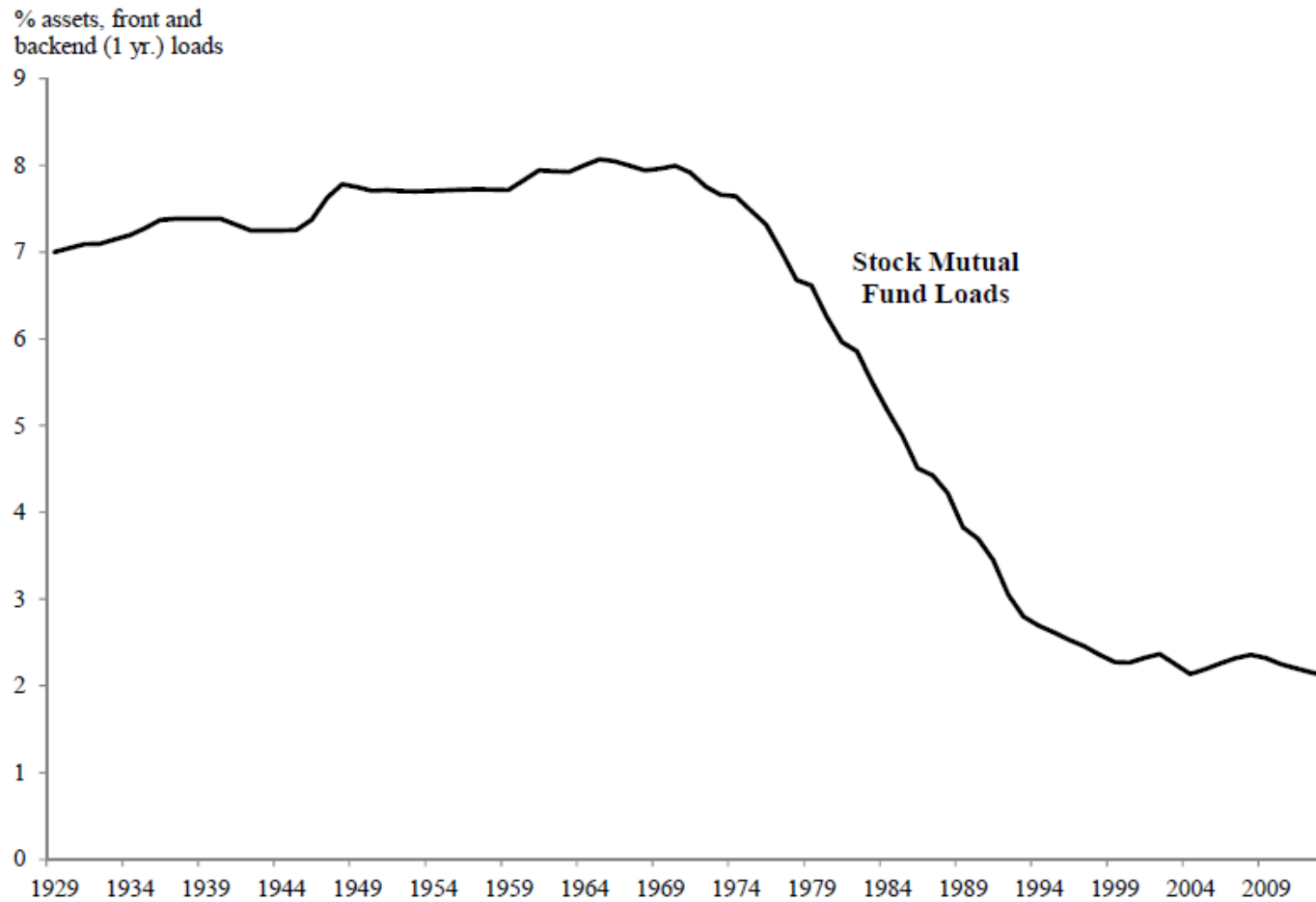
Money demand accounting for financial innovations and swings in uncertainty (risk premia)

– Money velocity depending on:

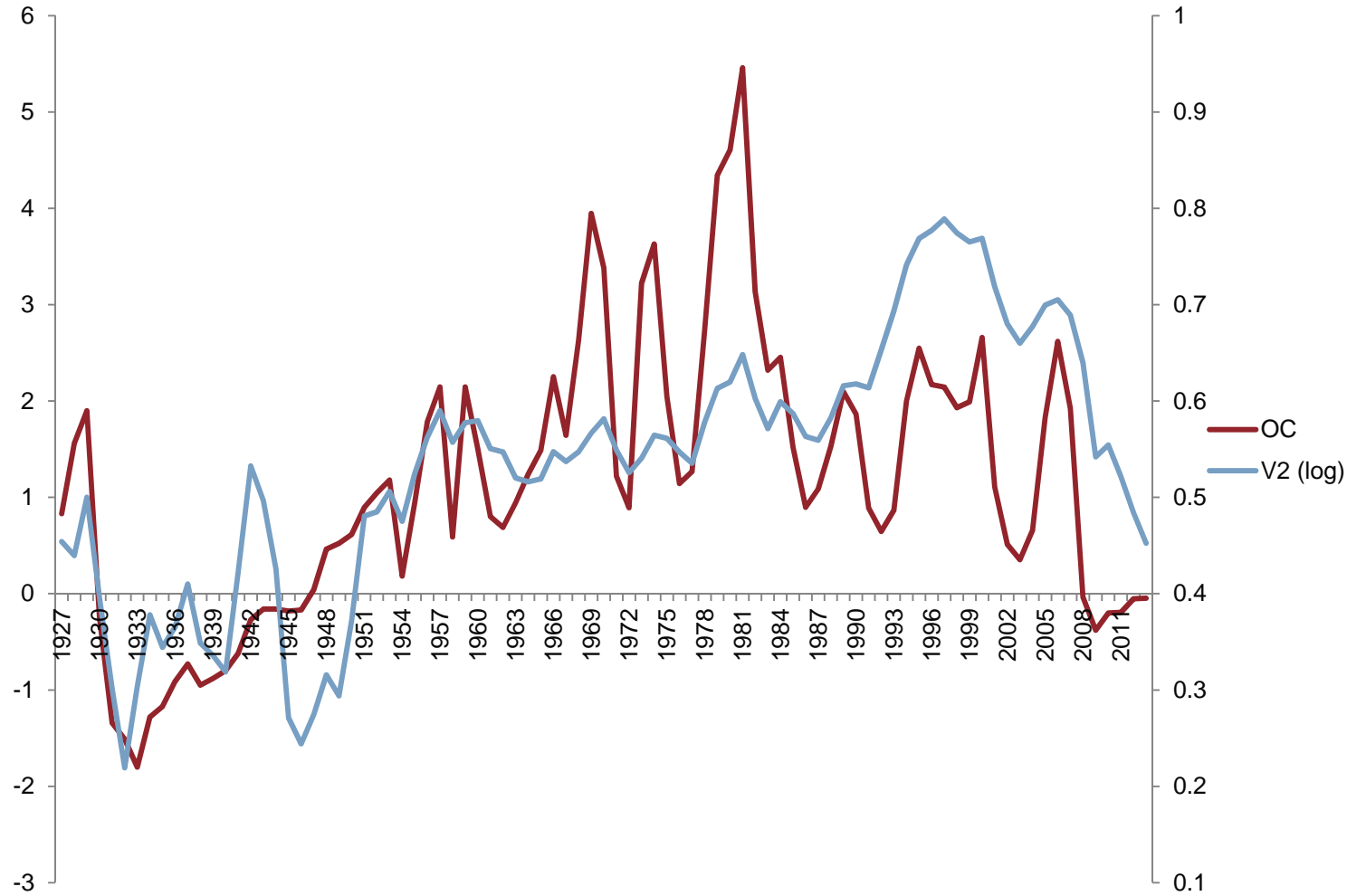
- Financial innovations
- Opportunity cost
- Risk premium

Financial innovations

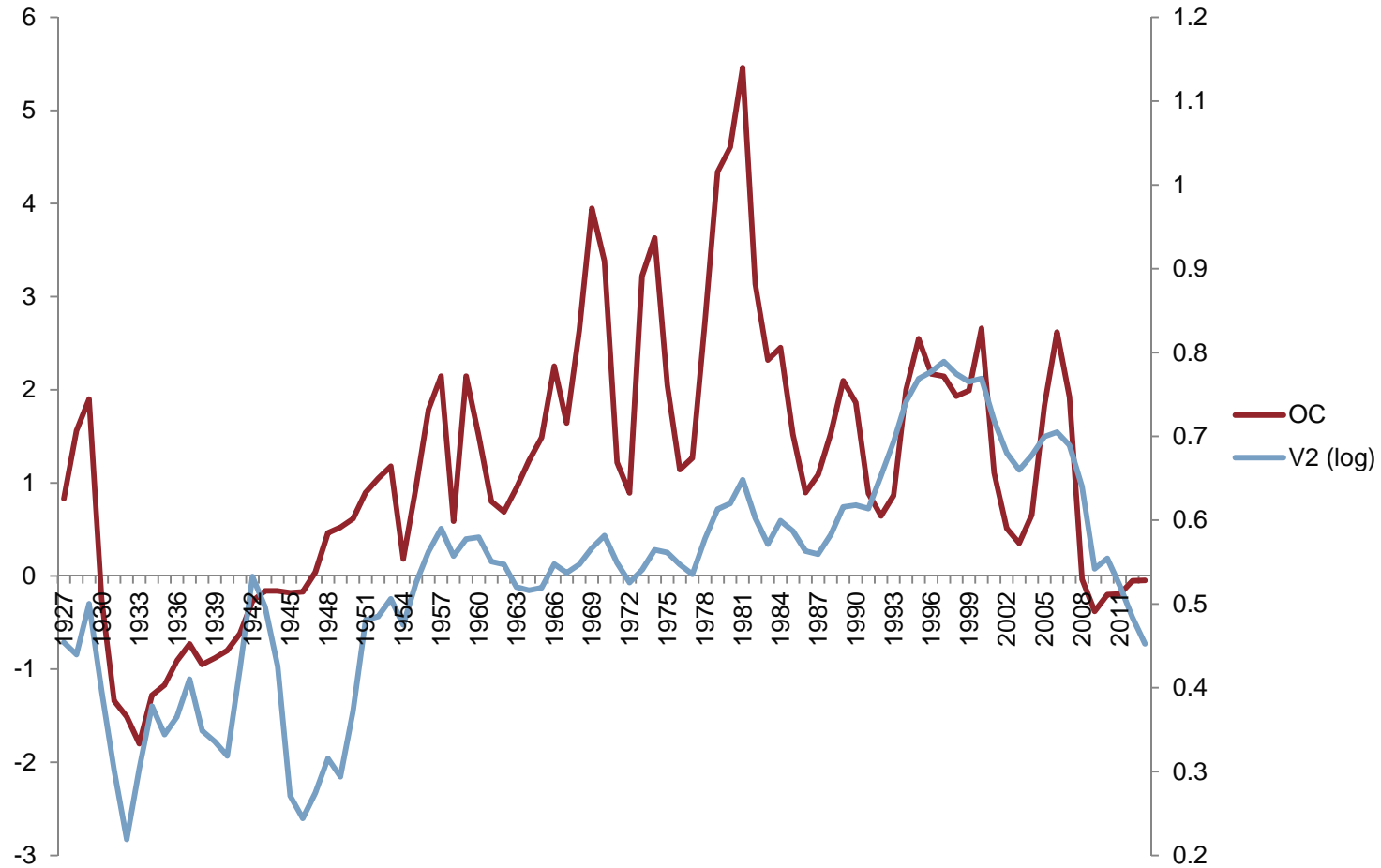
Figure 9: Stock Mutual Fund Loads Shift in the Last Several Decades

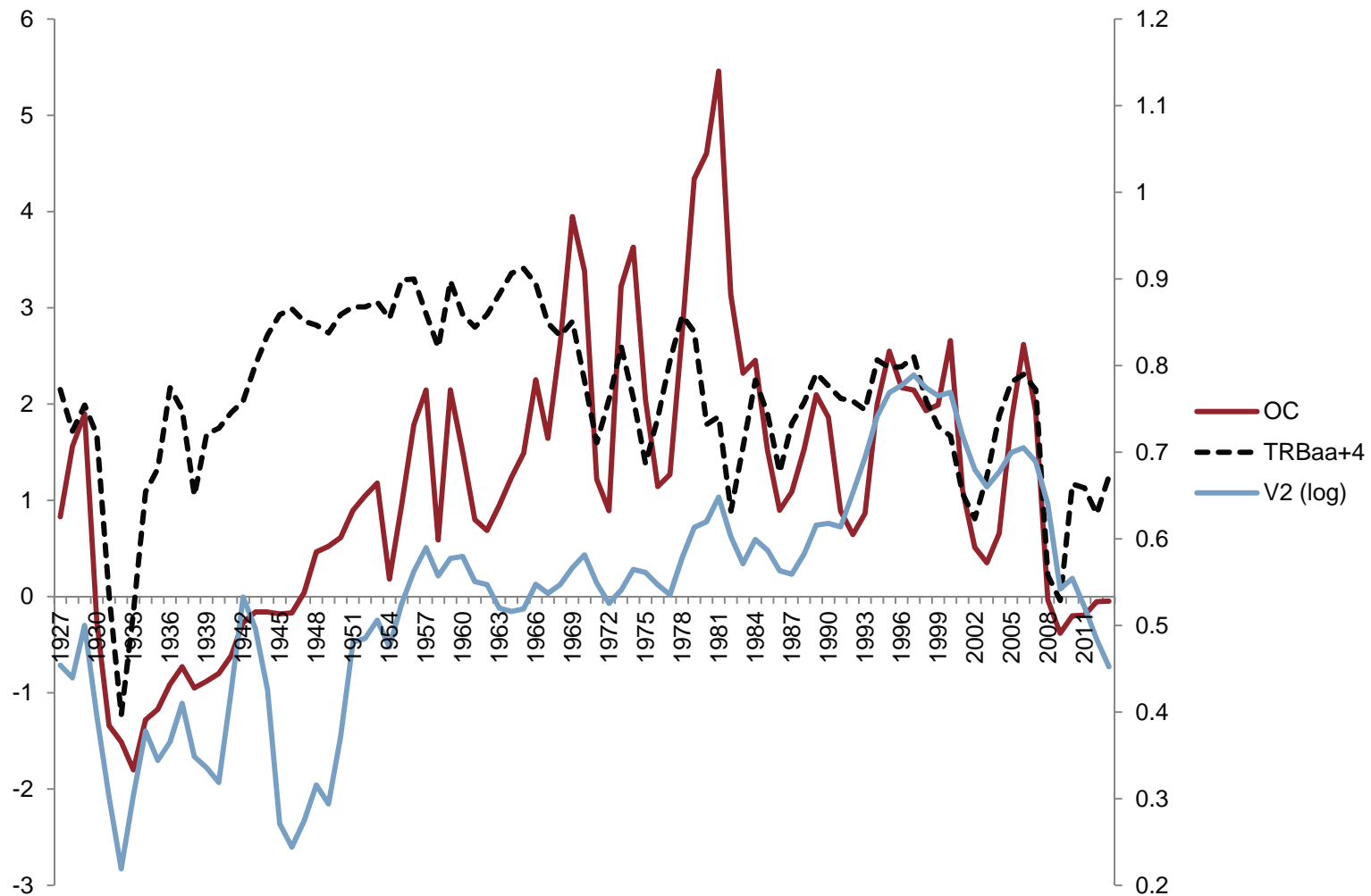


Velocity and OC until the mid-1970s



Velocity and OC since the mid-1990s





- Risk premium not explaining current low velocity
- May be causality runs from QE to lower risk premium?

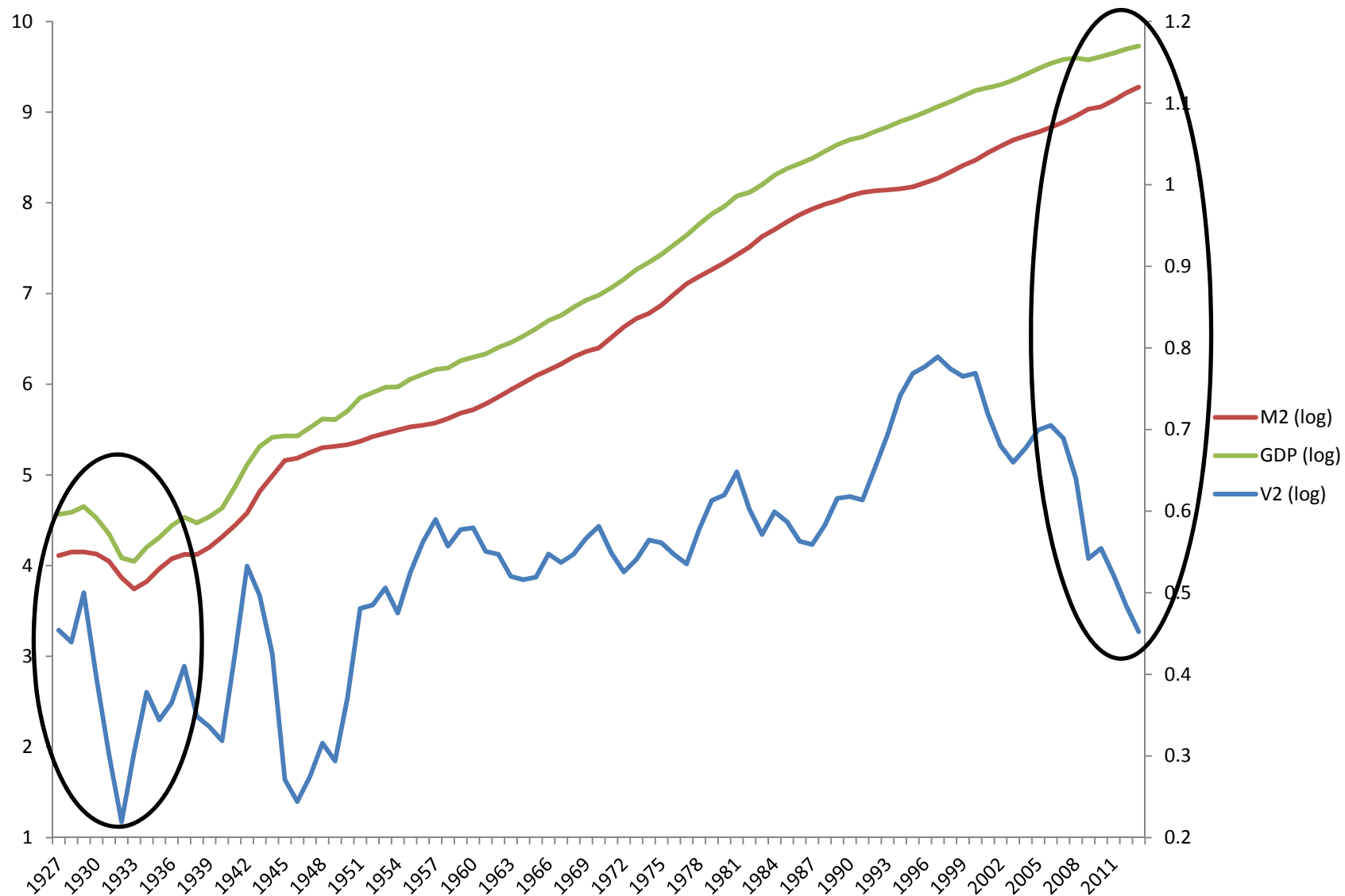
Policy Implications

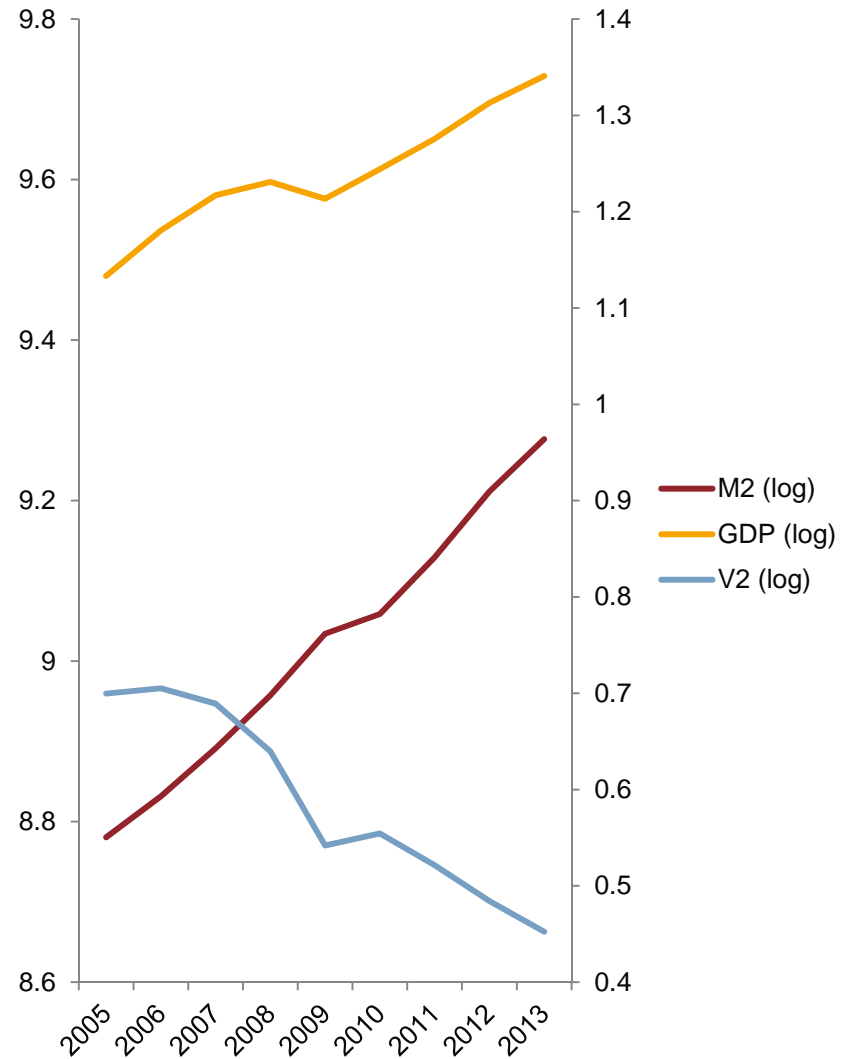
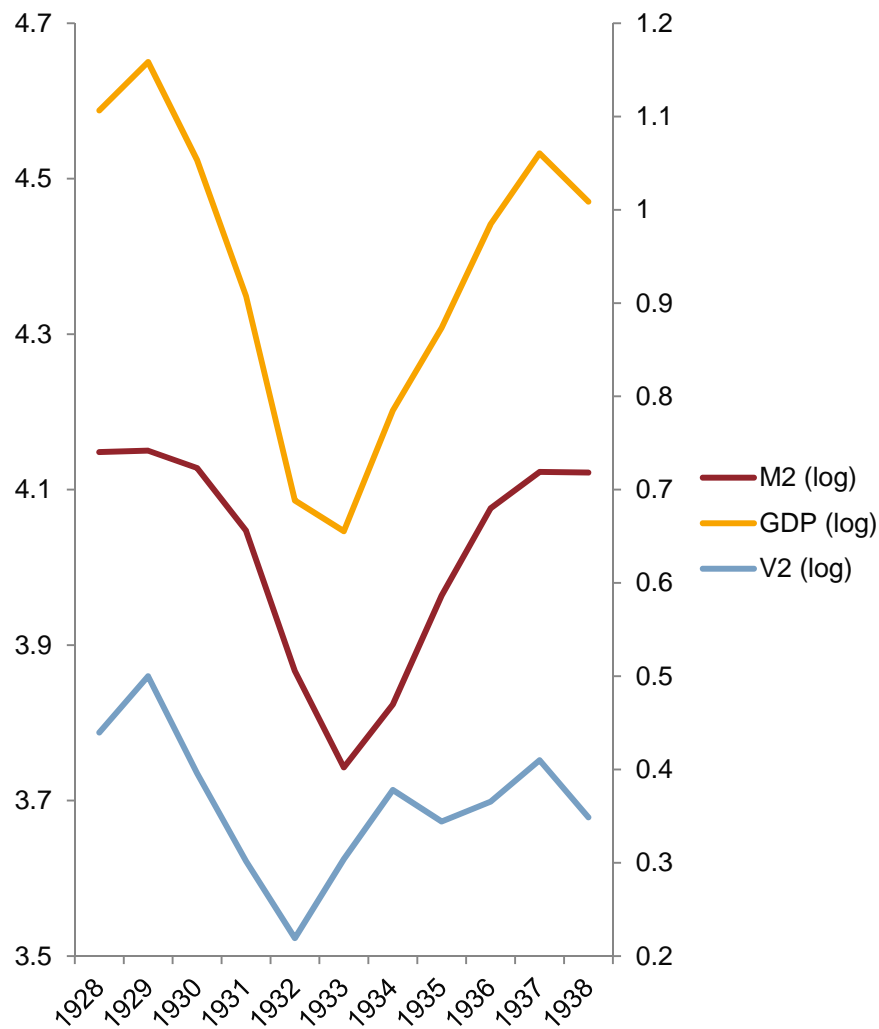
- What drove velocity fluctuations?
- Money and risk premium: which causality?

How can money increase / decrease?

- Money increases only when
 - the banking sector lends to (or buys existing debt from) the non-banking sector (money creation in normal times)
 - the CB buys existing debt from the non-banking sector (money creation during QE)

- Money decreases when the opposite happens





During great recession, decrease in velocity due to increase in money supply caused by QE, which caused decrease in risk premium.

Thus the Fed has been creating money and at the same time decreasing the incentive (risk premium) to hold it: perfect receipt for future higher inflation!?!

Thank you for your attention!

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