

EMPIRICAL EVIDENCE ON THE LONG-RUN NEUTRALITY HYPOTHESIS USING DIVISIA MONEY

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ABSTRACT

By employing Fisher and Seater's (1993) long-run neutrality test, the researchers tested the monetary neutrality proposition in Singapore for the period of 1980-2009. Empirical findings show that monetary neutrality does not hold in Singapore when both the simple-sum money and Divisia money are employed. As both the simple-sum and Divisia monetary aggregates are non-neutral, monetary authorities may consider their use as a monetary policy tool affecting real economic activity.

Keywords: *Monetary Neutrality, Divisia Money, ARIMA Model*