Abstract

An examination of the determinants of the money supply is an important but often overlooked aspect in Indian monetary research.

The literature distinguishes three competing models of the money supply process namely, "pure portfolio approach", "pure loan demand approach" and "mixed portfolio-loan demand approach". While the first corresponds to the money multiplier approach, the latter two are the accommodative and structuralist views of money endogenenity of the post-Keynesian monetary theory.

Using the RBI monthly data, this study finds the endogenous nature of money supply in India where a paradigm of mixed portfolio loan model operates. It supports the structural approach implying that the policy stance of the monetary authority and private initiatives of banks are important in money supply determination.