

MONEY AND FINANCE IN AN INPUT-OUTPUT FRAMEWORK: A SURVEY

Topic: Structural change and dynamics 2

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This paper will revisit the classic works pertaining to the less traversed field of 'Application of Input-Output technique in Finance'. By evoking the ideas and explanations presented in these noteworthy works, this paper will attempt to bring forth the scope of using this tool increasingly in the field of Finance. Contributions to this subject have been rare. Copeland's (1949) 'Social accounting for money flows', Lange's (1952) 'Some observations on input-output analysis' and the following three will be examined.

Leontief and Brody (1993) produced a work on Money Flow Computations. Copeland (1954) and Augustinovics (1965) had an influence on this work. This paper modeled the flow of money as a Markov chain. It showed that its ergodic state is equivalent to the economic equilibrium. Fischer equation was evoked for the circulation of money and theorems made use of 5x5 sector Hungarian matrix.

Brody (2000) presented a work on Monetary Multiplier which was a sequel to Leontief and Brody (1993). Herein, Brody has modeled circulation of money as a Markov chain. This results into a new and disaggregated form of the Kahn-Keynes multiplier which has been duly explained and investigated. Together, it results into a spurt of new money. In essence, the paper has attempted to demonstrate that the classical multiplier can be broken down into a detailed picture describing the process both in space and through time.

Tsujimura and Mizoshita (2003) marks an important development. It commenced by presenting the compilation procedure of the Asset-Liability-Matrix (ALM) from the Flow-of-Funds (FOF) account in the balance sheet format that is available in the IMF member countries. The second purpose of this paper has been to demonstrate the application of ALM in the examination of the quantitative monetary policy which was introduced by the Bank of Japan in March 2001.