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RESERVE RATIO AND COMMERCIAL BANKS PORTOFOLIO BEHAVIOUR IN GREECE, 1960 - 1981

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1. INTRODUCTION

The crucial questions which center monetary analysis are : What determines the money supply? Can the Central Bank act to influence that supply? If yes, how? These questions have generated a good deal of controversy in the past two decades. Given that money supply can be defined as the sum of currency in circulation outside the Banking System plus demand (and Time and Saving) deposits, the questions reduce to what determines cash and bank deposits. Therefore, the isolation of the factors affecting the ingredients of the money stock (especially total deposits which constitute the main bulk of it) will lead to the understanding of the mechanism which causes changes of the money stock.

The purpose of this paper is to analyse the changes of the total money stock in terms of changes in the money multiplier and in cash – base and decide what has caused these changes. More specifically, following the so called «New View» of Money stock determination, it tries to examine the case according to which the reserve–ratio (which constitutes an ingredient of the money multiplier) depends on some index of rates of interest. If this holds true, changes in the rate of interest, will ceteris paribus, cause changes in the value of the money multiplier and hence the value of the money stock. This brings about the very important policy implication that money supply is an endogenous variable of the system.

2. SOME THEORETICAL ISSUES

The traditional approach (or the «old view») to the determination of the volume of bank deposits accepts that in a fractional reserve system, where r_b