



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001
फोन/Phone: 91 22 2266 0502 फैक्स/Fax: 91 22 22660358

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Determinants of Liquidity and the Relationship between Liquidity and Money: A Primer

The Reserve Bank of India today placed on its website a Working Paper titled "[Determinants of Liquidity and the Relationship between Liquidity and Money: A Primer](#)". The Working paper has been written by Shri A.K. Mitra and Ms. Abhilasha.

The paper studies the determinants of liquidity and the interactions between liquidity and money and is intended as a primer. A number of interactions between central bank operations and their effects on base money and money supply are represented through stylized balance sheet representation and charts depicting the actual data. The continued importance of money in an interest rate targeting operating framework is discussed. The authors find that tests based on Granger causality do not give any clear indication of money supply being fully endogenous. The paper concludes that the impact of liquidity management operations of the Reserve Bank may not always have the desired impact on money supply due to the changing behavior of the public and commercial banks, leading to episodes of endogeneity of money supply.

The Reserve Bank of India introduced the RBI Working Papers series in March 2011. These papers present research in progress of the staff members of RBI and are disseminated to elicit comments and further debate. The views expressed in these papers are those of authors and not that of the Reserve Bank of India. Comments and observations may kindly be forwarded to authors. Citation and use of such papers should take into account its provisional character.

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Alpana Killawala
Chief General Manager