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Journal Name:	<u>British Journal of Economics, Management & Trade</u>
Manuscript Number:	Ms_BJEMT_19110
Title of the Manuscript:	Estimating the Money Demand Function and a Demystification of the Endogeneity-Exogeneity Nexus of Money Supply using Static and Dynamic Models: The Case of Zimbabwe (1991-2008)
Type of the Article	Original Research Article

General guideline for Peer Review process:

This journal's peer review policy states that **NO** manuscript should be rejected only on the basis of '**lack of Novelty**', provided the manuscript is scientifically robust and technically sound.

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PART 1: Review Comments

	Reviewer's comment	Author's comment <i>(if agreed with reviewer, correct the manuscript and highlight that part in the manuscript. It is mandatory that authors should write his/her feedback here)</i>
Compulsory REVISION comments	The paper deals with an interesting subject as it is the analysis of the money demand function and the application to tests of ergogeneity to both the demand and supply of money throughout a period of 18 years. The fact that the country of study is Zimbabwe makes the topic even more relevant, given the well-known episodes of hyperinflation in such country. However the document needs to be improved. The compulsory comments are the following: 1. The document has severe redaction problems. At first the paper needs to be dramatically shortened. This can be done without any loss of relevant content; in fact it would increase the quality of the document. For example, the abstract should comprehend about 150-200 words and not an entire page, if the authors avoid to be redundant and to make statements that are not treated with care or proven in the document the length of the abstract and all of the document can be fixed. On the other hand the introduction (and background of the study) is vague and ambiguous (as well as too long), it isn't clear to read and deals with subjects that have a slight relationship with the document but that are not tested or treated in it. The introduction has to be a resume of the document and has to begin stating what was done in the document, how, with which data and what are the results and why are they relevant and represent a contribution or not the literature (the latter is true with or without novel results – I understand that the lack of novelty is not an impeding issue to publish in this journal). I recommend that the introduction and background of the study has to be rewritten focusing on what actually does the paper and less in why the document is important to the Zimbabwean economy. The introduction as it is now lacks motivation and does not represent what was	I believe the background of study must be through to justify the importance of the study



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	done in the document. 2. The theories of money demand/supply is not explained in an appropriate manner: The author just tries to explain every possible theoretical approach to money demand functions and just puts one theory after the other without a clear connection within them. Upon that, it is not clear what is the approach (theoretically) that the document is following and how it derives in equations (17) and (18). Following John Cochrane (2005) (Writing Tips for Ph. D. Students) the theory shown should be just the exact amount and extent needed by the reader to understand what the authors do and not a bunch of not connected statements, models and equations. This section even if not wrong at the core is especially nebulous. I suggest that the authors put the theory needed to get to equation (17) and nothing else and if some other theoretical debates and clarifications need to be treated then it could be done in an appendix. Specific mistakes in the equation will be treated in the minor comments below. 3. The document does not elaborate on empirical differences between money supply and demand. It just says that in the equilibrium they are equal, and that is true. But the problem is that other than in equilibrium it can't be talked of supply and demand as if they were the same of it can't be said that the aggregates (M1, M2 or base) represent the demands itself. The problem of measurability of the demand is not elaborated and then it isn't clear in the entire document how the author deals with the supply and how that is different of the demand. This is vital and needs to be clear in order to differentiate how to conclude and test for erogeneity of each variable to the fundamental determinants. I suggest that they authors pay close attention to make that differentiation clearer in the document. For example, the observed aggregate can be the supply while the fitted value of the demand functions can be the demand. This kind of treatment (or if instrumental variables are used to approximate the demand as it happens in other documents) need to be	I think the background is clear since is clearly stated that the research seeks to proffer answers to questions stated and also it focuses on measures to be taken to avoid history repeating its self given that the central bank will introduces a Zimbabwean currency in the future, and it must not suffer the same speculative attack. A research must have exhaustive, rigour and thorough theoretical framework and empirical review to clearly show the controversy and importance of the body of existing literature to clear identify the relevancy of the study.
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	explicit in the document. 4. In page 16 the interpretation of the unit root tests does not correspond to the results shows, either one (or both) is wrong (e.g. It says that the exchange rate is stationary when the tests apparently shows it is I(2)) 5. In general problems of endogeneity seem to affect the document. First the Engle-Granger test is rejected implying the presence of cointegration. Second some variables shows signs of multicollinearity. All of this could imply that the best representations of the final demand functions and models could be multivariate (to take into account such endogenous patterns) or corrected methods with instrumental variables. At the least a further clarification regarding this comment should be done.	
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		I suppose the variables do not suffer from serious multicollinearity problem to affect the robustness of results since based on the literature provided which suggests that the VIF value must be within the range of 0-10, in addition the correlation matrix did not show any two variables with correlation in excess of 0.8 in absolute terms an indication of less severe multicollinearity based on Gujarati (2013)
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<u>Minor</u> REVISION comments	Here I will put errors that don't compromise the potential or core quality of the paper. Those are mistakes that could be easily corrected and don't require major revisions or modifications: 1. a. The first phrase of paragraph 1 in page 2 has redactions problems. b. The Figure 1 in page 4 has an incorrect title. It says "trends of" but the graph correspond to percentual changes of inflation and money supply not trends. It might refer to the trend that the variations have had through time but that interpretation has to be left to the reader not to the text. c. Equation (8) consists in a demand function stated as different from the previous ones but in essence is the same as the (5), differences should be explained if possible or clarified if one is a particular case of the other. Additionally, the document uses functions with $f()$ and later with $L()$, does this means that the functional forms are significantly different? Why?, such ambiguity should be removed of the paper. d. fourth paragraph in page 9. The first phrase has not sense, remove or fix redaction. e. One example of misleading usage of the terms demand and supply of money as if they were always the same appears in page 10 in the fourth paragraph. f. Equation (9) is confusing: What is $\ln(x,y)$??? g. The meaning of the variables used in Equation (10) are never explained, this has to be done right after the equation is shown. h. The derivation of Eq. (16) is not entirely clear, but the step from (16) to (17) is particularly confusing, this needs to be clarified. i. in Page 14, the last part of the first paragraph has redaction problems and then it isn't clear how the periods are treated in the estimations and Chow tests. j. The first paragraph in page 15 is too long and explains econometric theory that is basically too common or obvious, this can be removed of the document to shorten the document (example: "The data to be used...(CLRM) assertion", if nothing is said it is obvious that the standard checks are applied to the models) k. in the first paragraph of page 16 says "the researcher found", who is the researcher? Is there a different researcher working in the paper besides the	
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	author(s)? l. The Engle-Granger test for cointegration is applied. Nevertheless I recommend applying a Johansen test to get a more complete characterization of the cointegration relationships. m. In page 17 there is not said how many lags were included in the Breusch-Pagan LM tests. Also there is a whole paragraph explaining what is heteroskedasticity and what implies in terms of an estimator. This is not necessary (is too general) and could be removed. n. In page 18 the Autocorrelation tests shows too many lags, this isn't needed and just adds to the long extent of the papers, just put a few of the lags (e.g. 1,4,6,12,24). o. In page 19 a whole paragraph is included explaining what is multicollinearity, again this is not necessary and just worsens the document. p. The multicollinearity tests are not concluding, the mean VIF is 3.79 which is acceptable but there are two variables that seem troublesome from such point of view. That problem and the way to solve or deal with it is not elaborated in the document.	
<u>Optional/General</u> comments	The document applies Granger causality tests to look for predictive causality among the variables. In a multivariate framework as the one used this can be complemented by applying Contemporary Causality tests as well (see Lutkepohl (2005))	