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# Endogenous Money Supply and the Business Cycle*

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This paper documents changes in the cyclical behavior of nominal data series that appear after 1979:Q3 when the Federal Reserve implemented a policy to lower the inflation rate. Such changes were not apparent in real variables. A business cycle model with impulses to technology and a role for money is used to show how alternative money supply rules are expected to affect observed business cycle facts. In this model, changes in the money supply rules have almost no effect on the cyclical behavior of real variables, yet have a significant impact on the cyclical nature of nominal variables. *Journal of Economic Literature* Classification Numbers: E32, E42, E50. © 1999 Academic Press

*Key Words:* business cycle facts, endogenous monetary policy, real business cycles.

## INTRODUCTION

One of the main ideas to come out of real business cycle theory is that a significant share of the variation in the real economy can be accounted for with a simple economic model of production and consumption that ab-

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