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MODELLING OF FINANCIAL ANXIETIES AS PRECAUTIONARY DEMAND FUNCTION

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Abstract. *Financial anxieties are modelled as psychological change of people due to financial shocks. Financial position (easy or tight) is regressed by interest rate of lending (rise or fall) and the state of "tight" position under the "fall" interest rate is regarded as financial anxieties. Such anxieties are quantified by conditional variance of TARCH model. Precautionary demand is estimated as a function of financial anxieties in VEC model and the long-run equilibrium relationship of related monetary system of (money, real GDP, interest rate) is analyzed.*
Keywords: Financial anxieties, Precautionary demand, Cointegration, TARCH

1. **Introduction.** The relationship between the money supply and economic activity had been relatively stable in the 1970s and 1980s. This relationship had been observed, even during the period of the emergence and busting of the bubble economy, though both were related with a long lag. So, money supply had been one of the important targets in conducting monetary policy in Japan. However, the relationship between money supply and economic activity had become harder to discern since the end of 1990s. The Bank of Japan [1] and S. Miyagawa and Y. Morita [2] explicitly reported that the long-run equilibrium relationship between money stock and real economic activity could no longer be detected, though such relationship could be found before 1998. It was the year of 1997 when serious financial problems had come out in the Japanese economy. Several big banks and security companies had failed, including Hokkaido Takushoku Bank and Yamaichi Securities. The Hokkaido Takushoku Bank, well known as TAKUGIN, was the largest regional bank in Hokkaido and Yamaichi Securities Company was fourth largest bank of the Big Four securities firms in Japan. Though several financial institutions had been failing after the burst of the bubble economy in 1990, they were small sized institutes and tactically dealt by insurance deposit. However, the failures of two big financial institutions were quite different from the former bank failures when the significance of their role in the Japanese economy was put into consideration. Further their failures triggered the