**On-line Appendix**

**Table A-1 – Statistical characteristics of variables used in econometric tests (Jan 1921- Dec. 1922; 24 obs.)**

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | Mean | Median | Maximum | Minimum | Std. Dev. |
| Consumer prices | 81.87 | 19.85 | 685.10 | 11.20 | 160.34 |
| Wholesale prices | 180.60 | 35.76 | 1475.00 | 13.08 | 372.91 |
| Real exchange rate | 98.23 | 90.47 | 171.99 | 62.35 | 33.88 |
| Nominal exchange rate | 237.06 | 47.60 | 1808.00 | 14.60 | 496.29 |
| Narrow money in real terms | 3.20 | 3.05 | 5.51 | 0.65 | 1.64 |
| Narrow money | 210.26 | 114.30 | 1280.00 | 66.60 | 276.32 |
| M2 | 221482.00 | 123694.00 | 1295228.00 | 78764.00 | 278027.40 |
| Interest rate on 3% Imperial bond | 12.01 | 9.72 | 37.64 | 4.49 | 9.03 |
| Interest rate on 3.5% Victory bond 1932- | 3.81 | 3.77 | 4.35 | 3.39 | 0.34 |

**Table A-2 - VAR Granger Causality/Block exogeneity Wald Test (1921.01-1923.06)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Excluded variables |  | Dependent variables | | |
|  | Consumer prices | Real Exchange Rate | Real fiscal deficit |
| Real fiscal deficit | 0.58 | 1.17 |  |
| Real exchange rate | 17.69\*\*\* |  | 2.05 |
| Consumer prices |  | 2.61 | 4.99 |
| All | 21.57\*\*\* | 3.09 | 10.56 |

Legend: Monthly change of variable. \*\*\* rejected at 1%; \*\* rejected at 5%; rejected at 10%.

**Table A-3 – Unit Root Test (1921.01-1923.06; HP filtered variables; lag-length included obs. 25)**

|  |  |  |
| --- | --- | --- |
|  | Intercept | Trend and Intercept |
| Augmented Dickey-Fuller |  |  |
|  |  |  |
| Real Exchange Rate | -5.85\*\*\* | -5.75\*\*\* |
| Consumer price inflation | -3.73\*\*\* | -3.63\*\*\* |
| Notes in circulation in real value | -4.87\*\*\* | -4.78\*\*\* |
|  |  |  |
| Dickey-Fuller GLS |  |  |
|  |  |  |
| Real Exchange Rate | -5.76\*\*\* | -5.85\*\*\* |
| Consumer price inflation | -3.66\*\*\* | -3.78\*\*\* |
| Notes in circulation in real value | -4.94\*\*\* | -4.94\*\*\* |

Legend: The number of lags has been chosen according to the Schawarz Information Criterion. The null hypothesis is that the variable has a unit root. \*\*\*reject at 1%, \*\*reject at 5%, \*reject at 10%

**Table A-4 VAR Granger Causality/Block exogeneity Wald Test (filtered variables; 1921.01-1923.06)**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Excluded variables |  | Dependent variables | | |
|  | Inflation | Real Exchange Rate | Real monetary base |
| Notes in real value | 1.44 | 1.50 |  |
| Real exchange rate | 17.53\*\*\* |  | 15.63\*\*\* |
| Inflation |  | 3.73 | 7.26 |
| All | 21.11\*\*\* | 6.91 | 28.58\*\*\* |

Legend: Monthly change of variable. \*\*\* rejected at 1%; \*\* rejected at 5%; \* rejected at 10%.

**Table A5a - Composition of forecast error variance of variables in the VAR system (forecast at 24 months; period: 1921.01-1922-06)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Variance decomposition of | | |
| due to | Consumer prices | Real exchange rate | Narrow money in real terms |
|  | VAR ordering: Average | | |
| Consumer prices | 31.9 | 38.7 | 32.3 |
| Real exchange rate | 36.7 | 35.2 | 34.0 |
| Real money | 31.5 | 26.2 | 33.7 |

**Table A5b - Composition of forecast error variance of variables in the VAR system (forecast at 24 months; period: 1922.01-1923-06)**

|  |  |  |  |
| --- | --- | --- | --- |
|  | Variance decomposition of | | |
| due to | Consumer prices | Real exchange rate | Narrow money in real terms |
|  | VAR ordering: Average | | |
| Consumer prices | 30.4 | 23.1 | 26.5 |
| Real exchange rate | 58.3 | 65.2 | 52.4 |
| Real monetary base | 11.3 | 11.8 | 21.0 |

**Figure A1 – Forward exchange rate and recursive coefficients of *bad news***



Legend: \_\_\_ Forward exchange rate; \_\_\_ Recursive coefficient on *bad news.*

**Figure A2 – Impulse response functions of the standard VAR**



**Figure A3 - Impulse response functions in the SVAR**

Response of Real exchange rate to shock on:

Real exchange rate Real monetary base Prices



Real exchange rate Real monetary base Prices

Response of Real Monetary base to:

Real exchange rate Real monetary base Prices

****

Response of Prices to:

Real exchange rate Real monetary base Prices

