

# **An Investigation on the Transaction Motivation and the Speculative Motivation of the Demand for Money in Sri Lanka.**

*By*

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## **Abstract:**

The main objective of this study is to empirically investigate the transaction (income elasticity) and speculative motivations (interest rate elasticity) of the demand for money in the Sri Lankan context and to examine its stability. The study employed the use of cointegration test over the 1977 to 2009, to estimate long run relationship between money demand and its determinants: real income and interest rate. The study found out that money demand function is stable in Sri Lanka for the sample period. The income is the most significant factor of the demand for money, and it makes a powerful positive impact on real money demand. Interest rate is positively related with real money demand and significant, but not consistent with existing theories. Demand for Money on transaction motivation is larger than its speculative motivation in the Sri Lankan context.