

Appendix

Estimation of Current Concepts of M2 and M3, 1948-58

The official estimates of the current measures of M2 and M3 are available beginning with January 1959. The current M2 and M3 measures are approximately equal to the old M3 and M5 concepts. The major differences are (1) the current M1 component differs from the old M1 component, (2) the current M2 includes an adjustment to eliminate double counting of transactions deposits, and (3) the current M3 indicates a small amount of large time deposits outstanding at the beginning of 1959, while the old M3 and M5 measures are equal in value at that time.

The estimation of M2 and M3 series for the period 1948-58 that are comparable to the current concepts begins with the construction of a series for the M1 component over 1948-58 period that is consistent with current M1 concepts. The construction of these data are described in my paper "M1 Velocity;" the only difference between the data described there and the M1 data used here is that the present study applies no shift adjustment to the checkable deposit component of M1.

Data on time deposits at commercial banks and nonbank financial institutions are added to the M1 measure to obtain the basic estimates for M2 and M3.³³ The resulting series is approximately 1.6 percent larger than the current M2 estimates at the beginning of 1959 and approximately 0.8 percent larger than the current M3 estimates at the beginning of 1959. To adjust for this discrepancy, these data are chained to the current estimates of M2 and M3. The constructed series for M2 over the 1948-58 period was estimated to be 0.984 times the corresponding basic estimates; the constructed series for M3 over the 1948-58 period is estimated to be 0.991935 times the corresponding basic estimates.

33. The particular series used are "Time Deposits Adjusted" in table 1.1 and "Time Deposits at Nonbank Financial Institutions" in table 1.2 of Board of Governors of the Federal Reserve System, *Banking and Monetary Statistics: 1941-1970* (Board of Governors, 1976).