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# Dollarization in post-hyperinflationary Argentina

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### Abstract

This paper analyzes the continued dollarization of the Argentine economy, which experienced a rapid decline in inflation following its hyperinflations of the 1980s. First, a measure of dollar currency circulating in Argentina is developed, thereby improving upon previous studies of dollarization and currency substitution that focused on dollar deposit holdings only. Second, cointegration analysis of peso money demand in Argentina finds a negative  $\hat{\pi}$ -ratchet effect<sup>TM</sup> from inflation. The reduction in peso money demand attributable to the ratchet mirrors the estimated stock of all dollar assets held domestically by Argentine residents, consistent with the hypothesis of irreversible dollarization.



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## Keywords

Argentina; Broad money; Cointegration; Currency substitution; Dollarization; Error correction; Hyperinflation; Irreversibility; Money demand; Ratchet effect

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