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Evidence of the causal long-term relationship between budget deficit, money growth and inflation in Colombia is analyzed in this paper, considering the standard (M1), the narrowest (M0-Base) and the broadest (M3) definitions of money supply. Using a vector error correction (VEC) model with quarterly data over the last 25 years, the study found a close relationship between inflation and money growth on the one hand, and between money growth and fiscal deficit, on the other. The size of the long-term parameters looks acceptable, particularly when compared to what is seen in other countries, using analogous or different techniques. The conclusion, supported by several statistical tests, is that the

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Sargent and Wallace hypothesis would be the most appropriate approach to understanding the dynamics of these variables.

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