

Research on the Relationship between Money Supply and Household Consumption——Verification Based on VAR Model

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Abstract. Based on the social expectations of rapid economic recovery in the post-epidemic era, this paper takes the theory of monetary theory as the research perspective, and establishes a VAR model based on time series data from 1990 to 2022 based on the research mechanism of money supply and household consumption in academia, and uses the VAR model as the research method, and conducts empirical research on the correlation between M1 money supply, per capita consumption expenditure and per capita disposable income of residents. Exploring how to boost household consumption by adjusting the money supply under the impact of the epidemic, the results prove that there is a positive correlation between money supply and household consumption, and the relationship between money supply and household consumption is also indirectly affected by a variety of external factors. Based on the research results, this paper finally provides some policy suggestions for the formulation and effectiveness of monetary policy.

Keywords: The Monetarical School; Money Supply; Household Consumption; VAR Model.

1. Introduction

1.1. Research Background and Research Objectives

Monetary policy is one of the important means of economic macro-control at the national level, which has a huge impact in promoting regional economic increase and price stability, and is also the most common means of adjusting the money supply. At the beginning of 2020, the new crown pneumonia swept the world, the unprecedented impact of the epidemic hit the global economic development situation hard, the World Bank's "Global Economic Prospects" report believes that per capita income, advanced economies, emerging market and developing economies will be severely contracted. Based on this, countries have successively issued a series of economic stimulus plans to stabilize economic operation and ease the downward pressure on the economy. As the new crown pneumonia is gradually brought under control, how to recover the "trauma" caused by the epidemic, boost residents' consumer confidence, and reverse the economic operation to the normal track as soon as possible is what governments and people urgently expect. Monetary policy as an important means of national economic macro-control, its status is self-evident, rational use of monetary policy, appropriate adjustment of the money supply in the market, to ensure that to boost household consumption while reducing the economic shock caused by inflation as much as possible, all this premise is to fully understand the money supply for household consumption transmission mechanism, this research came into being.

The promotion of monetary policy on consumption is affected by a variety of factors, the new crown pneumonia as an emergency, its economic impact is undoubtedly as a new variable to change the original economic environment, in the new situation, the increase of money supply can continue to play a role as studied by predecessors, this paper comprehensively studies the academic achievements of predecessors, summarizes and extracts the path of the money supply mechanism and possible external influencing factors, and uses VAR model for confirmatory research. In order to explore how the money supply acts on household consumption in the new economic context. After clarifying the relationship between money supply and household consumption, it further provides useful policy reference for the rational and effective use of monetary policy by the government and the central bank to adjust the money supply.

1.2. Literature Review

1.2.1. Research on Monetary Policy

The first is the study of monetary policy, because there is a close relationship between monetary policy and the money supply. The original intention and the main purpose of monetary policy is to adjust the money supply, in the economic society, the money supply is not a spontaneous change variable, the government's impact on the money supply is mainly through fiscal policy and monetary policy, and monetary policy is the most effective and relatively low negative impact means, so it is also the most commonly used means of the national economic sector. Academics have also done quite a wealth of research on the nature of monetary policy, and they have divided monetary policy into expansionary monetary policy, prudent monetary policy and contractionary monetary policy [1]. Generally speaking, in the face of external shocks to the economy, the government usually prefers to adopt expansionary monetary policy to boost the economy, but studies have shown that although expansionary monetary policy can increase output in the short term, it will suppress household consumption to a certain extent, and in the long term, it will lead to output overshoot and consumption sustainability [2]. Therefore, the use of expansionary monetary policy needs to be carefully evaluated. For post-epidemic monetary policy, this research can simply divide it into price-based monetary policy with interest rate reduction as the main means and quantitative monetary policy with epidemic subsidies as the main means. It is not difficult to see that quantitative monetary policy works more directly and more stable, but its effect may be more limited [3]. In contrast, price-based monetary policy has mainly affected the behavior of micro-subjects by changing the financial costs and income expectations of micro-subjects, and often has better effects than quantitative monetary policy, which can leverage larger consumption at a smaller cost, but the mode of action is not stable [4].

1.2.2. Research on the Money Supply

The second is the non-neutrality of money itself and the way money supply is affected, a theory that mainly originated abroad. Taking Keynes's theory as an example, Keynes has proposed that residents hold money for three motives, including transaction motivation, that is, the demand for money for daily payments; preventive motivation, i.e. the monetary need to cope with accidents; speculative motives, i.e. the demand for money caused by uncertainty about the value of an individual's other assets, of which Keynes believed that the first two were mainly related to the M1 money supply, while the last was mainly related to the M2 money supply. It can be seen that the currency held by residents has different economic purposes, so the increase in the amount of money held by residents will more or less cause changes in the demand for money related to the three motives, thereby further affecting the level of related economic variables. This involves the academic debate about currency neutrality versus currency non-neutrality, which means that a growth in the money supply will cause the price level to increase by the same proportion, but has no effect on the actual output level. Monetary non-neutrality refers to changes in the money supply, which will cause variation and adjustments in some economic variables such as real interest rates and output levels. This paper takes the theory of the monetary school as the research perspective, assuming that monetary policy is effective, and therefore money is also non-neutral, such as Keynes's discussion of the three motivations of residents to hold money, which can prove to a certain extent that money is non-neutral, which will have an impact on economic variables. Similarly, we can introduce the academic study of the transaction theory of the demand for money, which emphasizes that people hold money for the motive of transaction, which can also indirectly prove that the increase in the amount of money in the hands of residents will lead to changes in other economic volumes. In particular, Jiahe Wang has explained that in the event of macroeconomic accidents, central banks play an important role in economic stability, and monetary policy can be adopted to regulate the macroeconomy [5]. Therefore, this paper argues that an increase in the money supply will lead to changes in other economic volumes, which can affect changes in consumption.

1.2.3. Literature review

This paper finds that there is still a certain debate in the academic community about the relationship between money supply and household consumption, first of all, the positive and negative relationship between money supply and household consumption, and the increase in money supply does not necessarily directly increase household consumption, which is related to how we affect money supply. Price-based monetary policy may have a different impact than under normal circumstances, and even in some cases, its direction of action will change, and quantitative monetary policy, its direction of action is not easy to change because of the impact of the epidemic, in addition, we also need to pay attention to the long-term and short-term impact, different monetary policies on household consumption, from a long-term and short-term point of view, will have different effects, and even have some side effects, such as inflation and excessive regulation of consumption. Secondly, the effectiveness of money supply on household consumption is also influenced by a variety of elements, from the existing research has found that before and after external shocks, whether it is price monetary policy or quantitative monetary policy, the amplitude of its role will be affected by external shocks, we can summarize it as potential external factors, which need to be demonstrated in this article, only to clarify which factors have an impact on the magnitude of the money supply. Only when formulating relevant policies can the government fully consider the factors that may affect the effect of policies in the external environment, and then eliminate factors to ensure that the regulation of money supply and the regulation of consumption level by money supply can be effective and free from external interference.

2. Theoretical Analysis and Research Hypotheses

2.1. Theoretical Basis

The monetary school is the study of money in promoting economic growth and reflecting the law of social development, the founder is the University of Chicago Friedman, the believers of the monetary school believe that money has an important and pivotal position in economic life, money is "omnipotent", can adjust economic and social development indicators. They claim that a Keynesian combination of fiscal and monetary policy is undesirable and a source of economic turmoil and inflation. The monetarists advocate a single-rule monetary policy, believing that the government should minimize interference in the national economy, and what the government needs to accomplish is to provide a fixed annual growth rate of the money supply for a long time for a certain number of years, which only needs to be roughly consistent with the national economic growth, so as to achieve the role of stabilizing prices and promoting economic prosperity. Based on the theory of the monetary school, this paper assumes that monetary policy is of great significance in social life, and the government's fiscal policy remains unchanged in the long run, that is, the external environment remains basically unchanged, and studies the impact mechanism of changes in money supply caused by a single monetary policy on household consumption, removes irrelevant variables, retains only two research variables, and introduces new variables brought about by the epidemic impact to determine the relationship between the two.

2.2. Analysis of possible influencing factors

The effectiveness of money supply is often constrained by a variety of factors, in the process of monetary policy release to household consumption, there are a considerable number of economic, political, social factors will affect the response of micro subjects to macro policies, this paper from the purpose of research, the potential factors that may affect the direction and amplitude of action between money supply and household consumption are summarized and analyzed, laying the foundation for policy recommendations later.

Residents' expectations and consumer psychology. The market is a two-way choice between macro subjects and micro subjects, and after the government and the central bank release and implement

monetary policy, their effects are affected by the choice of micro subjects [6], in this process, micro subjects for the future expectations and their own inner thoughts are particularly important. Cultural practices, consumption habits, precautionary savings motivation, and expectations for the future are all very important elements [7].

Heterogeneity. The heterogeneity mentioned in this paper mainly refers to the heterogeneity of wealth reserves and income of different residents, which is mainly reflected in the inequality of wealth distribution and excessive income disparity of residents [8]; especially with the development of the financial market, the heterogeneity of household asset portfolio and asset input, residents are often reluctant to put eggs in the same basket, but carry out diversified household asset allocation, and the source of income is more diversified [9].

Economic policy uncertainty. The uncertainty of economic policy is mainly reflected in the impact on the future expectations of residents. Economic policy uncertainty has a greater impact on the outcome of China's price monetary policy and quantitative monetary policy [10], the increase of economic policy uncertainty will decrease the impact of monetary policy on economic regulation and control, in the years of high economic policy uncertainty, the stimulating effect of price monetary policy on consumption, output and investment will be significantly reduced, and even lead to the opposite change in the direction of price policy, in contrast, quantitative monetary policy on output, The stimulus effect of consumption and investment is not as good as that of price-based monetary policy, but when economic policy uncertainty rises, the direction of quantitative monetary policy on prices does not change [11].

2.3. Research Hypotheses

Based on the foregoing, the following assumptions can be made in this article.

Hypothesis 1. There is a correlation between the money supply and household consumption. Moderate growth in the money supply can boost household consumption. Excessive money supply growth causes inflation, which ultimately dampens the growth of household consumption.

3. Construction of VAR Model

In order to better verify the relationship between money supply and household consumption, the empirical part of this paper selects a series of macroeconomic indicators as explanatory variables, including per capita disposable income (yuan) and money (M1) year-on-year growth rate (%), and per capita consumption expenditure (yuan) as the explanatory variable, and empirical analysis is carried out by creating a model.

The reason why the VAR model is selected as an empirical model is that the VAR model is based on time series data, which can effectively test the correlation between the two indicators and predict the future trend, which fully meets the needs of this paper, and only by effectively predicting the future change trend can it better provide reference for policy recommendations.

3.1. Model Building

Table 1 describes the specific variable settings:

Table 1. The definition of the variable.

The variable type	Index	The variable name
The variable being explained	Per capita consumption expenditure of residents	Y
Explanatory variables	Year-on-year growth rate of currency (M1).	X1
	Per capita disposable income of residents	X2

Note: Data from China National Statistical Yearbook

3.2. Selection of Indicators

In order to further study the correlation between money supply and household consumption, we must first carry out the operationalization of the study, assuming that the government usually uses

monetary policy to regulate the money supply, and chooses money supply as the measure of monetary policy. Secondly, the money supply indicator has multiple versions, the most common is M0 money supply, M1 money supply and M2 money supply, M0 refers to the content is too narrow, so first exclude, after comparing M1 and M2 money supply, it is found that M1 money supply is more inclined to show the actual purchasing power, M1 money supply contains indicators that can be directly converted into consumption power of funds, and M2 money supply on the basis of M1 money supply, Indicators of potential spending power have also been added, which often do not translate directly into actual spending power.

As for the measurement of residents' consumption power, there is no doubt that the per capita consumption expenditure of residents is used as the basis for measurement. Because the background of this paper is the post-epidemic era after the impact of the epidemic, the epidemic is introduced into the study as a variable in the study, the per capita disposable income of residents is used to reflect the economic fluctuations brought about by the epidemic, the time series data from 1990 to 2022 is collected as research data, and a VAR model is established to study its correlation relationship, the data are processed separately, inflation factors and special events are eliminated, and the M1 money supply, M1 money supply growth rate, The relationship between per capita disposable income and per capita consumption expenditure reflects the relationship between monetary policy and household consumption in the post-epidemic era, laying a foundation for further research.

3.3. Descriptive Analytics

Table 2. A statistical description of the variable.

variable	N	mean	sd	p50	min	max
Y	33	9283.88	7509.8	6302	825	24538
X1	33	15.59	9.15	16	1.5	38.78
X2	33	12252.96	11282.53	7228.82	903.9	36883
ln_Y	33	8.72	1.01	8.75	6.72	10.11
ln_X1	33	2.53	0.75	2.77	0.41	3.66
ln_X2	33	8.89	1.13	8.89	6.81	10.52

The results are shown in Table 2, and the data interval selected in this paper is China's relevant trade and macroeconomic indicators from 1990 to 2022, with a total of 33 observations. Specifically, by analyzing the distribution of maximum and minimum values in the sample data, as well as the size of the standard deviation of the selected index, it can be seen that the range and standard deviation of the data are large, which indicates that the trend of the indicator changes more sharply, indicating that various uncertainties in the time range we examine are universal, so the logarithmic processing of the index and smoothing the data can alleviate the possible autocorrelation and endogenous problems in the model.

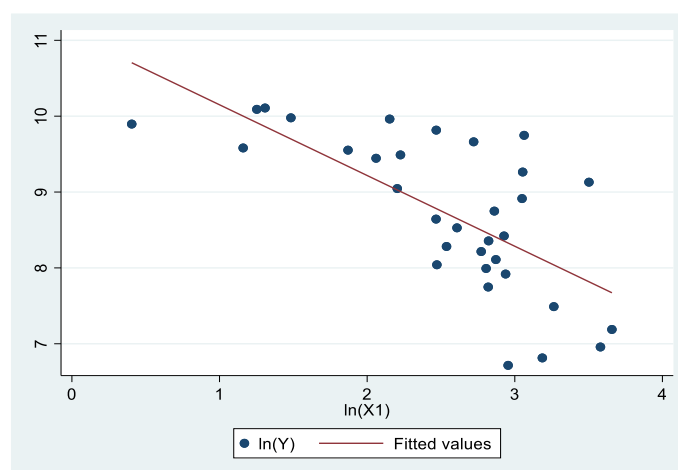


Fig 1. Currency (M1) year-on-year growth rate and per capita consumption expenditure scatter plot.

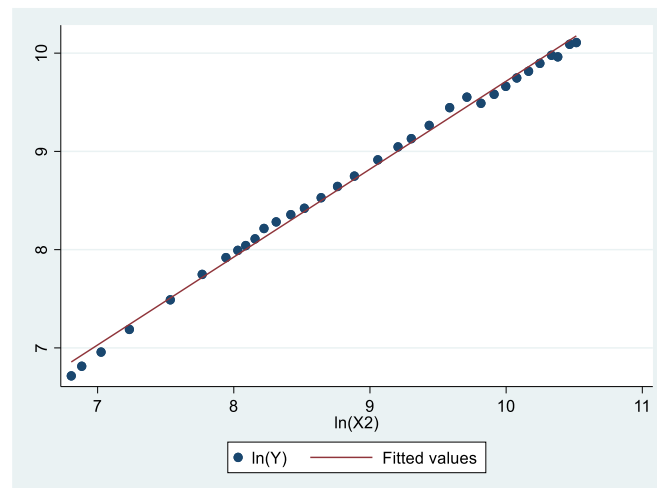


Fig 2. Scatter plot of per capita disposable income and per capita consumption expenditure of residents.

Figure 1 and Figure 2 show the scatter plot of the explanatory variables and the explanatory variables selected in this paper, and it can be seen by adding regression trend line analysis: over a period of time, the strong correlation between each explanatory variable and the explanatory variable is reflected, and the linear relationship is more obvious, so in the following empirical analysis, this paper will study the influence of explanatory variables on the explanatory variables from a quantitative perspective.

3.4. Stationary Check

Parameters such as the mathematical expectancy, variance, and autocorrelation coefficient of the stationary time series itself do not change with time and position. If the time series is non-stationary, it is necessary to process the sequence to be stationary, generally in a logarithmic differential manner. Non-stationary original time series have obvious memory and fluctuation continuity, so the stationarity test is the basis of cointegration relation test and series fluctuation persistence analysis. The stationarity of the test data includes subjective test method and objective test method, subjective test method focuses on the use of time path diagram, time series function graph, etc. to judge whether the time series is stable with the help of graphs, and there are various objective test methods such as unit root test, P test, KPS test and LMC. In order to test the stationarity of time series data, this paper uses the ADF method to test the stationarity of related variables, as shown in Table 3:

Table 3. The result of the Root of Variable Unit test.

Variable	Test form	ADF test value	Critical value(5%)	Prob value	Conclusion
LNy	(C,T,1)	-2.827	-3.576	0.1872	Not smooth
LNx1	(C,T,0)	-2.295	-3.576	0.1736	Not smooth
LNx2	(C,0,1)	-2.515	-2.983	0.1119	Not smooth
D(LNy)	(C,T,1)	-3.444	-3.580	0.0458	Smooth
D(LNx1)	(C,T,1)	-7.062	-3.580	0.0000	Smooth
D(LNx2)	(C,T,1)	-3.432	-3.580	0.0473	Not smooth

Note: 1. In the test type, c, T, and 1 represent constant terms, trend terms, and hysteresis orders, respectively; 2.D(x) represents the first-order difference calculated by Eviews10

When using time series data, it is important to determine the stability of the time series to avoid false regression between the explanatory and interpreted variables when the time series has a unit root. The null hypothesis of this test: the sequence of variables is not stationary, and the alternative hypothesis: the sequence of variables is stationary. The results of the root unit test of the variables used in this paper in the above table show that the ADF test shows that each sequence is unstable in the level test, and the variables are stationary at the significance level of 1% for the first-order

differential sequence, so the variable sequences are all first-order single whole sequences, and subsequent analysis can be continued.

3.5. Empirical Results of VAR Model

Before constructing the VAR model, it is necessary to determine the optimal hysteresis order and select the appropriate hysteresis to ensure the scientific nature of the model and make the variables have dynamic characteristics. In this paper, the AIC criterion and SC criterion are used to determine the optimal hysteresis order of the model, and the results are shown in Table 4, and the second-order hysteresis should be used.

Table 4. Choice of hysteresis order.

lag	LL	LR	df	p	FPE	AIC	HQIC	SBIC
0	-11				0.00054	0.99028	1.03458	1.13172
1	89	201.41	9	0.00	9.70E-07	-5.33421	-5.15702	-4.76843
2	107	34.838	9	0.00	5.6e-07*	-5.91484*	-5.60475*	-4.92473*
3	113	12.062	9	0.21	7.30E-07	-5.71009	-5.26711	-4.29565
4	124	22.249*	9	0.01	7.10E-07	-5.85661	-5.28073	-4.01783

According to the results of the hysteresis order test of the model, the VAR model with a lag of two periods is reconstructed, and the specific settings of the model are as follows:

$$\ln_Y = c_0 + a_1 * Y_{t-1} + a_2 * Y_{t-2} + b_1 * \ln_X1_{t-1} + b_2 * \ln_X1_{t-2} + c_1 * \ln_X2_{t-1} + c_2 * \ln_X1_{t-2} + u \quad (1)$$

The above equation is estimated using the STATA software, and the estimation results of the model are collated as follows:

Table 5. Estimated results of the VAR model.

ln_Y	Coef.	Std. Err.	z	P>z	[95% Conf.	Interval]
ln_Y						
L1.	0.456	0.222	2.05	0.040	0.021	0.891
L2.	0.021	0.2	0.11	0.916	-0.371	0.414
ln_X1						
L1.	0.036	0.013	2.83	0.005	0.011	0.061
L2.	0.036	0.014	2.55	0.011	0.008	0.064
ln_X2						
L1.	0.927	0.264	3.51	0.000	0.41	1.445
L2.	-0.459	0.251	-1.83	0.068	-0.952	0.033
cons	0.27	0.146	1.85	0.064	-0.016	0.556

The significance test for variables uses the T-test, in which the null hypothesis is that the coefficient estimate of the variable is equal to zero, and the alternative hypothesis: the coefficient estimate of the variable is not equal to zero. The regression results show that the coefficient estimates of the first and lagging periods of the year-on-year growth rate of money (M1) (LNX1) are 0.036 and 0.036, respectively, and the T-test rejects the null hypothesis that the coefficient estimate is equal to zero at the level of 5%, indicating that the increase of the year-on-year growth rate of money (M1) has played a positive role in the improvement of per capita consumption expenditure.

The coefficient estimates of per capita disposable income (LNX2) lag period I and lag period were 0.927 and -0.459, respectively, and the T-test showed that the null hypothesis that the coefficient estimate was equal to zero was rejected at the level of 5% of the variable lag period, indicating that

the increase of per capita disposable income played a positive role in the improvement of per capita consumption expenditure, but the number of impact periods was limited.

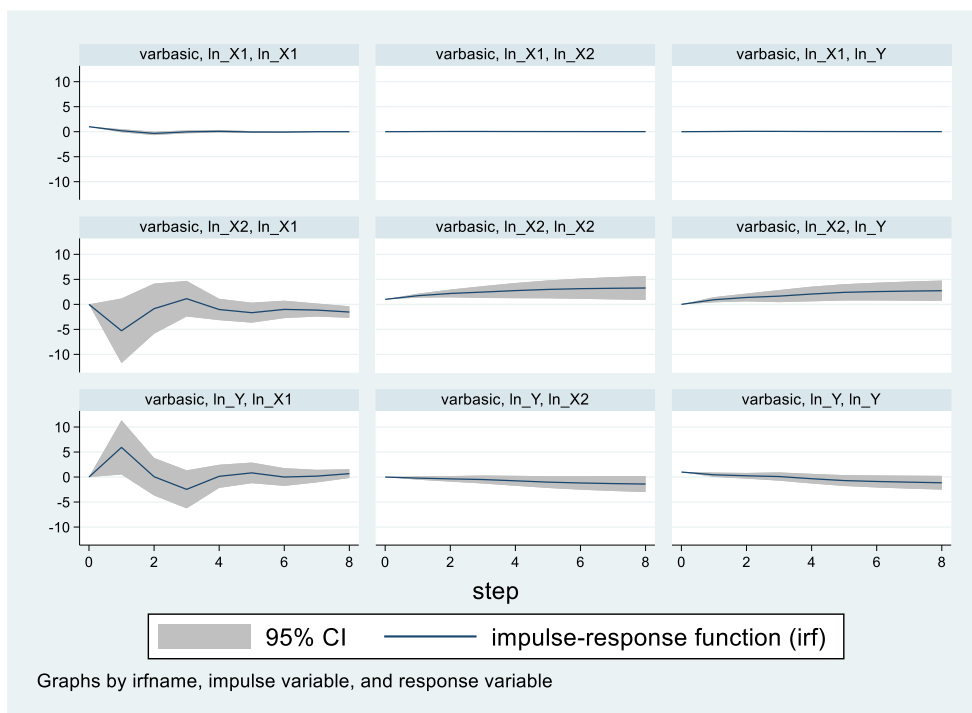


Fig 3. Impulse response graph (not orthogonalized).

Impulse response examines the effect of changes in one variable on another. This paper continues to analyze the impulse response of the VAR model, and the results are shown in Figure 3, the figure in the lower left corner shows the impact of the growth rate of money supply on the consumption level of residents, showing a clear positive impact in the first and second phases, and showing a significant downward trend after the second period, which shows that the moderate growth of the money supply is conducive to improving the consumption level of residents, and the excessive issuance of money will cause serious inflation, which is not conducive to the improvement of residents' consumption level.

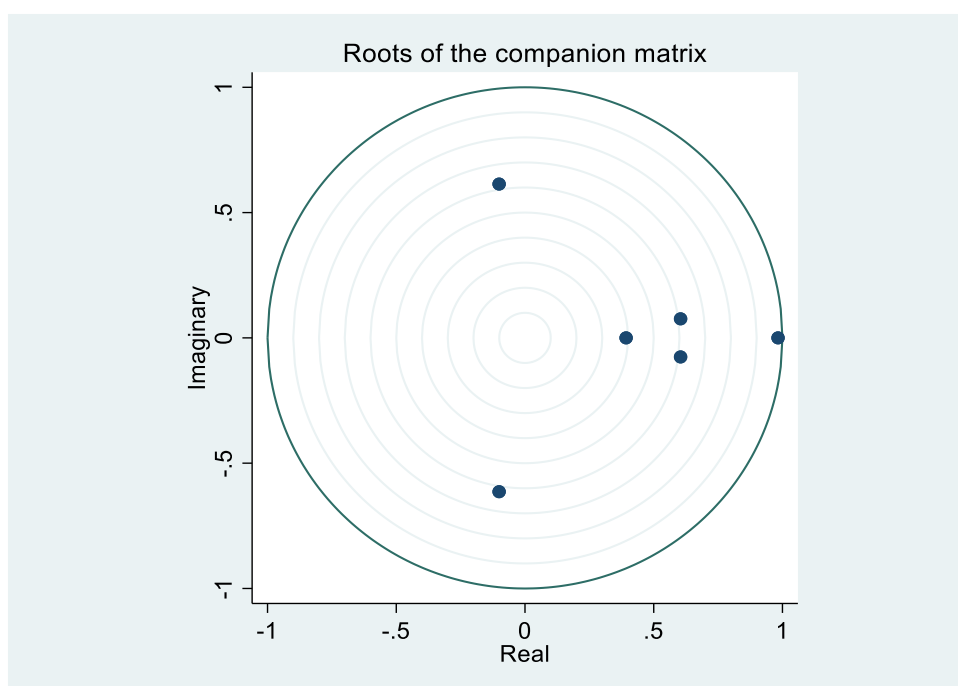


Fig 4. Roots of the companion matrix.

In this paper, the root-of-unity test method is used to test the robustness of the model, and the test results are shown in Figure 4. All variable unit roots fall in a single circle, which passes the robustness test, indicating that the model constructed in this paper is reasonable.

Table 6. Granger causality Wald tests.

Equation	Excluded	F	df	df_r	Prob > F
ln_Y	ln_X1	6.3059	2	24	0.0063
ln_Y	ln_X2	9.4162	2	24	0.0010
ln_Y	ALL	7.2815	4	24	0.0005
ln_X1	ln_Y	1.8026	2	24	0.1865
ln_X1	ln_X2	1.1489	2	24	0.3338
ln_X1	ALL	5.2169	4	24	0.0036
ln_X2	ln_Y	2.8268	2	24	0.079
ln_X2	ln_X1	2.9574	2	24	0.0711
ln_X2	ALL	2.6315	4	24	0.0593

The Granger causal test uses Wald's test, which is based on the null hypothesis: the explanatory variable is not the Granger cause of the explanatory variable, and the alternative hypothesis: the explanatory variable is the Granger cause of the explanatory variable. The results of the Granger causal test show that the year-on-year growth rate (%) of money (M1) and the per capita disposable income (yuan) of residents are the per capita consumption expenditure (yuan) of residents, both of which are significant at the level of 1%. The per capita consumption expenditure (yuan) of residents is not the Grangein, the year-on-year growth rate (%) of money (M1) and the per capita disposable income of residents (yuan).

4. Policy Recommendations

4.1. Use Monetary Policy to Boost Household Consumption

The VAR model has proved a positive correlation between money supply and household consumption, so this paper now mainly demonstrates how monetary policy can achieve the purpose of increasing consumption by increasing the money supply.

There are four main ways to implement monetary policy, namely interest rates, credit, asset prices and exchange rates, and the following policy recommendations can be put forward for this article:

The country can promote the increase of money supply by means of interest rate reduction, this interest rate reduction includes two aspects, one is to reduce the deposit interest rate to promote residents to reduce their willingness to save, and turn cash for investment or consumption, which is the most direct and effective way to boost consumption, residents will cash for investment, financial institutions can use funds for other aspects, thereby increasing the market money stock, can also provide sufficient funds for the production and operation of enterprises, through the flow of funds, and ultimately achieve the purpose of increasing consumption. If it is used for consumption, it directly increases the per capita consumption of residents in the market and achieves the purpose of increasing consumption. On the other hand, it is to reduce the loan interest rate, for enterprises, the reduction of the loan threshold helps to stimulate the enthusiasm of enterprise production and investment, enterprises can get more funds for expanding reproduction, from the supply side, while increasing labor demand and labor income level, and finally the money returns to consumers, disguised to increase the income level of consumers, thereby achieving the purpose of boosting consumption, for consumers, lower loan interest rates mean lower costs of large consumption, The willingness of consumers to borrow large amounts of money has increased, thereby stimulating the vitality of the market demand side, and the per capita consumption of residents has increased. The advantage of this approach is that the boost to consumption is a virtuous circle, rather than a single subsidy, which can

ultimately promote rapid recovery and good operation of the economy, and to a certain extent avoid inflationary pressures.

The state can also use government reserves to purchase treasury bonds and financial assets through open market operations, and increase the price of assets and cash flow in the hands of residents in disguise, so as to achieve the purpose of increasing the money supply. Government funding to purchase financial products, is also a common monetary policy, through the purchase of financial products, the market cannot be realized or not yet expired financial assets into cash assets, early payment, which makes the value of the assets in the hands of residents to achieve an increase in value, residents' wealth accumulation in disguised increase, at the same time this wealth accumulation timely into cash assets, the amount of money in the hands of residents increases, income increases, the money supply in the market increases, and ultimately enhances residents' consumption demand and willingness to consume.

The state should also use more quantitative monetary policy, such as epidemic subsidies, because interest rate adjustments and open market operations are mostly aimed at middle-class and above-middle class households, and for low-income groups, the above two measures do not produce good results, according to Keynesian theory, low-income groups are more inclined to consume than save after receiving cash, so subsidies to low-income groups are more effective, epidemic subsidies are a more suitable choice. As mentioned above, quantitative monetary policy can still maintain good results in the face of sudden shocks, and the direction of action will not change, therefore, the state should choose more quantitative monetary policy to subsidize low-income groups, make up for the gap of policy beneficiaries, and ensure that the whole people can enjoy the subsidies of monetary policy, so as to reduce income disparity and heterogeneity, and further promote consumption. However, it is worth noting that quantitative monetary policy will plunge the country into a certain degree of inflation in the long run, so the use of quantitative monetary policy should be cautious and used more targeted to ensure that the country is caught in the trap of inflation while promoting consumption growth.

4.2. The Indirect Path in which Monetary Policy Affects Household Consumption

The indirect path here is how monetary policy can be used to reduce income inequality. This point has been elaborated in considerable detail before, such as interest rate cuts, epidemic subsidies, etc., but unlike traditional monetary policy research, this paper believes that the regulatory function of monetary policy should be further exerted. Traditional monetary policy research focuses more on efficiency itself, this paper believes that should focus more on the field of fairness, give play to the function of monetary policy to narrow the income gap, improve social equity, as discussed earlier, the reduction of heterogeneity can also increase consumption to a certain extent, therefore, fairness is also an efficiency, in view of this, this paper believes that the government can try to develop a tiered interest rate, according to different income levels and expenditure levels to provide different interest rate policies, so as to achieve the purpose of narrowing the income gap. According to Keynes, the government should tilt resources more towards low-income groups, because the more low-income groups are easier to convert income into consumption, while high-income groups are more inclined to save or manage money, so the use of monetary policy to achieve wealth transfer can also increase consumption.

5. Conclusion

Based on the existing research on the relationship between money supply and household consumption at home and abroad, this paper takes the theory of monetary theory as the research perspective, first proposes that there is a correlation between money supply and household consumption, money is non-neutral, the increase of money supply will trigger changes in other economic volumes, and the direction and amplitude of money supply on household consumption are affected by a variety of external factors, and the possible influencing factors are discussed separately,

and then the VAR model is used to put M1 money supply, per capita income level of residents, The relationship between money supply and household consumption was carried out to prove the positive correlation between money supply and household consumption in the post-epidemic era, and concluded that in order to boost household consumption, monetary policy should be used to increase money supply and reduce income heterogeneity.

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