14.7 Quantity theory of money

- $M * V = P * Q$
  - M = Money supply
  - V = Velocity of circulation
  - P = Price level
  - Q = Output

- If V (pattern of payments) and Q (full employment) are constant, then it can be said:

  > A rise in M results in a proportional increase in P, e.g. more money, more inflation.

- Classical and monetarist view: Monetary policy just changes the price level (and not other variables).

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