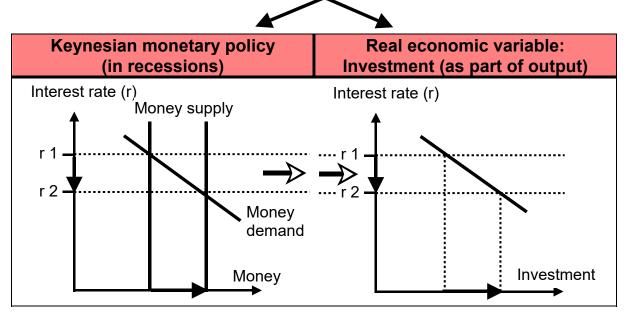
Monetary Policy 1

1	Classical view	2	Keynesian view	3	Monetarist view
•	Monetary policy does not change real variables like output or employment. It just changes the price level.	•	Monetary policy changes real economic variables like investment or employment.	•	Monetary policy can be used to control inflation.
•	Equation of exchange (by Fisher): M*V = P*Q M = Money supply V = Velocity	•	Example of an expansionary policy (in recessions):	•	Monetary policy cannot change real economic variables.
	P = Price level Q = Output If V and Q are constant, a change in M will only change P.		Money supply increases \rightarrow Interest rate decreases \rightarrow Investment increases		



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4th January 2009