राजकीय महाविद्यालय गोसाईंखेड़ा उन्नाव

बी. ए द्वितीय वर्ष

डॉ प्रियंका गौड़

असिस्टेंट प्रोफेसर अर्थशास्त्र

Scanned with CamScanner

B.A. II
Economics
1st Paper

Classical Quantity Theory of Money

Cambridge Version (1917) Cash Balance Approach

* Economist related to Cambridge school
* Marshall, Pigue
* In Fisher Approach, role of money is only medium of exchange (OR to hold)
* Cambridge → Md role → hold for Transaction + Invest

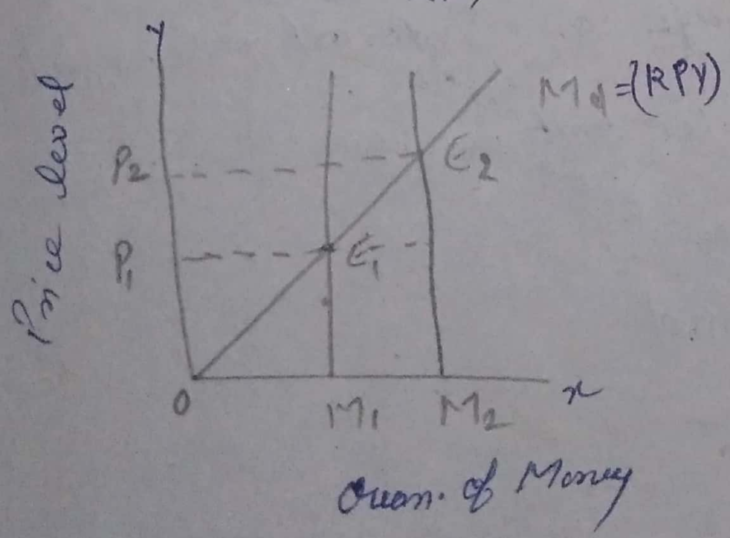
$$Md = kPY$$

* for Fisher how much money people will have to hold
* for Cambridge how much money people wish to hold

k = Portion of Nominal Income
P = Price level
Y = Real National Income / Agregate Outp
PY = Nominal N.Income

M - Suply of Money (Exogeneously given)

$M = Md$
$M = kPY$



OMd - Demand for M cur
M_1 - Suply fo. M. curv
Eq - At point E_1
Price - OP_1
⇒ MS ↑ to M_2
⇒ Demand for goods/
⇒ Prices ↑
⇒ Demand for Money
⇒ New Eq. at Point E

Scanned with CamScanner

$M = (k) PY$

$k \rightarrow V$

k in cambridge approach direct relates to V in fishers approach.

if $k \uparrow \rightarrow V \downarrow$

OR $k = \frac{1}{V}$

$$P = \frac{M}{kY} = \frac{1}{k} \cdot \frac{M}{Y}$$

In an assumption k. Y are constant than Price level is directly propotionate to supply of Money.

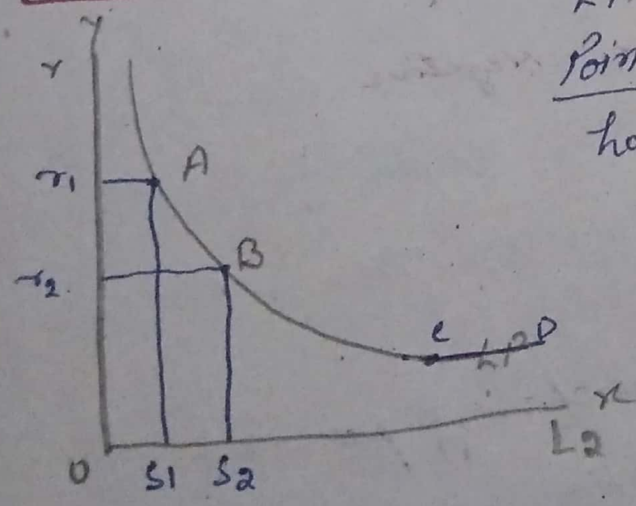
Criticism

1. Truisms
2. Price level does not measures the purchasing po
3. Too much emphasis on M_s
4. M_s influence Price through an Interest rate
5. k, Y in short run not constant
6. Neglect Interest Rate
7. " Speculative Demand.

Keynesian Theory of ~~Demand~~ Demand for Money

* Keyns is from Cambridge ~~sch~~ School
* People demand money for 3 motives –
  1. Transaction motive
  2. Precautionary motive } $L_1 = f(Y)$ → Positive function
  3. Speculative motive → $L_2 = f(r)$ → Negative function
* Sp. motive is the gist of keynsian theory which derives rate of interest, further Investment and aggregate demand.
* Keyns emphasis only on bond market
* Bond promises its holder a fix income for a period of time
* Price of bond is inversely related to rate of interest.

r = 5%
Rs - 100/-
time - 5 years



LP – Liquidity Preference curve

Point A → At r_1 Interest Rate people hold only OS_1 cash ~~on~~ for sp. motive and rest invest on bonds.

Point B → Rate of Interest ↓
Sp demand for Money ↑

Point C–D → Liquidity trap

Priyanka Gaur

Scanned with CamScanner