राजकीय महाविद्यालय गोसाईंखेड़ा उन्नाव

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B.A. II
Economics
IInd Paper

Quantity Theory of Money OR

Theory of Demand for Money (Md)

* Importance in Interest rate theory.

ब्याज दर के निर्धारकों मे (Md) सबसे ~~सर~~ प्रमुख है। ब्याज
की दर, निवेश के निर्धारण मे एवं निवेश समग्र मांग के
निर्धारण मे प्रमुख भूमिका निभाता है। समग्र मांग अर्थव्यवस्था
मे ~~समग्र माग~~ सन्तुलन स्थापित करने एवं उत्पादन के स्तर को
निर्धारण करने मे प्रमुख भूमिका निभाता है। इस प्रकार स्पष्ट
है कि मुद्रा की मांग मांग एक महत्वपूर्ण चर है, इसलिए
हम यहाँ इसके प्रमुख निर्धारकों का अध्ययन करेंगे।

Classical Quantity Theory of Money

(USA) Erivin Fisher (1911) (Purchasing Power of Money)

Ex Con Cons

$$\boxed{MV \equiv PT}$$ (Identically Equal)

M - Amount of Money in circulation
V - Velocity of Money in circulation
P - General Price level
T - Volume of Transaction

M is exogenous
V - financial sector, online trading, digital banking etc
PT is basically indicates the demand of Money (Md)

$$\boxed{M = kPT} \qquad \boxed{k = \frac{1}{v}}$$

k - constant fraction of total transaction

According to Fisher:

Money is performing the function of medium of exchange only.

Henry Thuston → 'MS बढ़ने पर prices बढ़ जाते हैं' (18th century)

E.F 'If other thing remaining unchanges, the supply of money (Ms) in circulation increase, the price level also increases in direct proportion and value of Money decreases and vice versa.'

(AM) MS ↑ ÷ Pri ↑, Value of Money ↓

Assumptions :-

1. Price is a passive factor
2. Same proportion in M and M' (M - Money in cash, M' - bank)
3. Constant proportion in V and V'
4. Transactions (T) is Constant and doesn't effect M, M', V, V'.
5. $M_D \propto$ value of Transaction
6. Money supply exogenously determined constant.

Long run

Full Employment level

Note Md is basically Md to hold *

Equation of Exchange

$\boxed{MV = PT}$

Value of money and Price level will determined by the interaction of Md and Ms

MS = Amount of money (M) and velocity of money (V)

Supply = 3000 × 4 = 12000

Md = Only transaction motive

Md = P × T

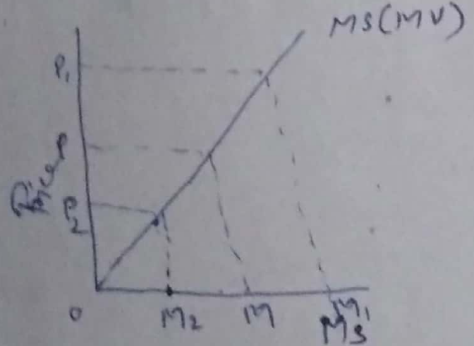
⇒ Amount of Money (M) ∝ P (Price level

⇒ Amount of Money (M) ∝ 1/α value of money

$MV + M'V' = PT$

OR $= \boxed{\uparrow P = \frac{\uparrow M\bar{V} + M'\bar{V'}}{\bar{\bar{T}}}}$

Increase in amount of money will increase price level.



$\boxed{\uparrow P = f(M)\uparrow}$

OM - OP

↑ OM_1 - OP_2 ↑

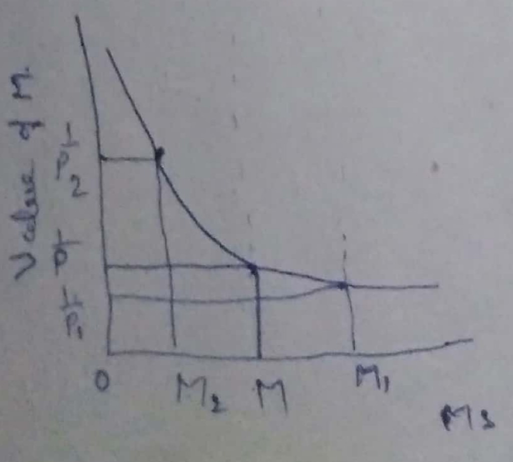
↓ OM_2 - OP_2 ↓

$\boxed{\text{Value of Money } 1/\alpha \text{ M}}$

$OM \rightarrow O1/P$

$\uparrow OM_1 \rightarrow O1/P_1 \downarrow$

$\downarrow OM_2 \rightarrow O1/P_2 \uparrow$



Criticism

1. Inoperative below full employment
2. V and T are not constant.
3. Neglect Rate of Interest
4. Too much emphasis on Money supply
5. Applicable only in long run.
6. Price level is assumed passive factor
7. Money is only medium of Exchange

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