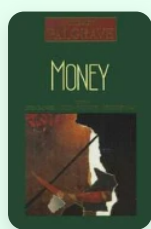


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# Quantity Theory of Money

| Chapter

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## Abstract


In this survey, we shall first present a formal statement of the quantity theory, then consider the Keynesian challenge to the quantity theory, recent developments, and some empirical evidence. We shall conclude with a discussion of policy implications, giving special attention to the likely implications of the worldwide fiat money standard that has prevailed since 1971.

Lowness of interest is generally ascribed to plenty of money. But... augmentation [in the quantity of money] has no other effect than to heighten the price of labour

and commodities... In the progress toward these changes, the augmentation may have some influence, by exciting industry, but after the prices are settled... it has no manner of influence.

[T]hough the high price of commodities be a necessary consequence of the increase of gold and silver, yet it follows not immediately upon that increase; but some time is required before the money circulates through the whole state .... In my opinion, it is only in this interval of intermediate situation, between the acquisition of money and rise of prices, that the increasing quantity of gold and silver is favourable to industry .... [W]e may conclude that it is of no manner of consequence, with regard to the domestic happiness of a state, whether money be in greater or less quantity. The good policy of the magistrate consists only in keeping it, if possible, still increasing ...

(David Hume, 1752).

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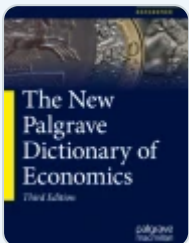
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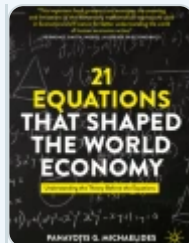
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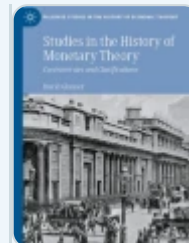
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