

SOME REAL EVIDENCE ON THE REAL BILLS DOCTRINE VERSUS THE QUANTITY THEORY

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Abstract

Researchers interested in testing between the Real Bills doctrine and the Quantity Theory approach to inflation in the face of rapid, deficit-financing money growth are confronted by an observation equivalence problem. This paper identifies a data set which resolves the dilemma and tests the two inflation models. The results provide clear evidence supporting the Real Bills doctrine, that the value of assets backing money determines its value, over the Quantity Theory.

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