

Dalton, Trey

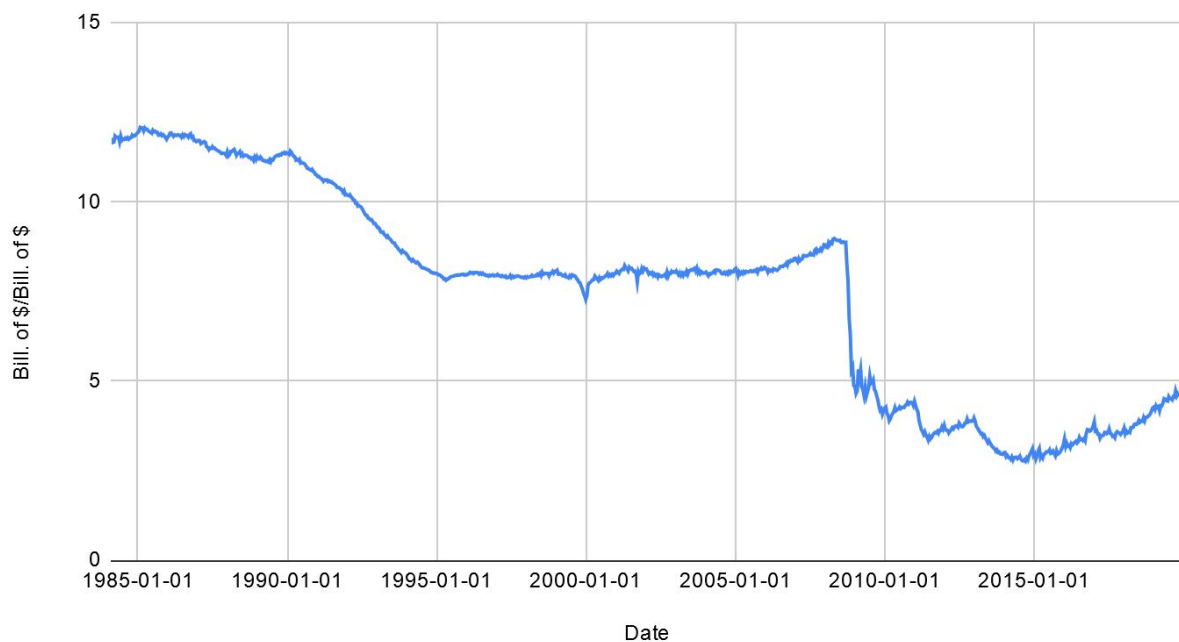
ECON-102-C

Professor Herdelin

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Quantity Theory of Money

M2 Money Stock/St. Louis Adjusted Monetary Base vs. Date



The Fed was not successful in increasing inflation using the Quantity Theory of Money. The graph above shows the Money Stock which is essentially equal to the Money Supply. The Quantity Theory of Money states that if money growth surpasses the growth of economic output then the result is rising prices. This in turn means that there is inflation. From 2009 to 2019 the graph sees a gradual decline and then some

growth near the end of this period. However, this growth never exceeds the value near 2009. So if the Fed had wanted to increase inflation then values in the later part of this range should have exceeded the values from around 2009 but instead they have only matched those values so inflation rate has stayed relatively the same.

Velocity relates to the Quantity Theory of Money because of the following equation: $MV = PT$, where M = money supply, V = velocity, P = average price level, and T = volume of transactions. If we assume that transactions remain constant then we have that any increase in either money supply or velocity would result in an increase in the price level. Thus, if the price level increases then we have inflation and to cause an increase in inflation then the Fed must cause a greater increase in the prices. Looking at the graph of money velocity [here](#) we can see that velocity has been decreasing in the past couple years. With the money supply not changing much and the velocity decreasing we can see that the Fed's attempt in increasing inflation did not succeed because the money supply had essentially no growth and the velocity decreased so prices did not increase and an increase in inflation did not occur.