

Macro Roundup Article

Headline: [Money and Inflation](#)

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Tweet: Jesper Rangvid argues that monetarist theory would have predicted deflation from the recent contraction in the M2 money supply. Continuing inflation leaves him “skeptical, to say the least” about the theory.

Summary: If money supply growth should cause inflation when money supply growth is unusually high, then the logical consequence must be that money supply growth should also cause low inflation/deflation when money supply growth is very low. And indeed, money supply growth has been historically low recently. In fact, the money supply has shrunk for the first time in sixty years. We should have deflation, but we have not. Instead, we have too much inflation. Since M2 shrank at an annual rate of almost 5% a year ago, with the 15-month lag that correlated with the inflation outbreak, we should have severe deflation in the next few months. Not “just” the 2% deflation we experienced during the financial crisis. No, severe deflation, because the money supply has been shrinking at a historic pace. As you can imagine, I am skeptical, to say the least.

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Primary Topic: Inflation

Topics: Database, GDP, Inflation, Monetary Policy, Op-Ed/Blog Post

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