Monetary Policy

1 Classical view	2 Keynesian view	3 Monetarist view
• Monetary policy **does not change real variables** like output or employment. It just changes the price level.	• Monetary policy changes **real economic variables** like investment or employment.	• Monetary policy can be used to **control inflation**.
• Equation of exchange (by Fisher): **M*V = P*Q** M = Money supply V = Velocity P = Price level Q = Output If V and Q are constant, a change in M will only change P.	• **Example** of an expansionary policy (in recessions): Money supply increases → Interest rate decreases → Investment increases	• Monetary policy cannot change real economic variables.

Keynesian monetary policy (in recessions)	Real economic variable: Investment (as part of output)