FISHER'S VERSION

Demand for Money

ECOHOLICS

IRVING FISHER

"The Purchasing Power of Money
in 1911

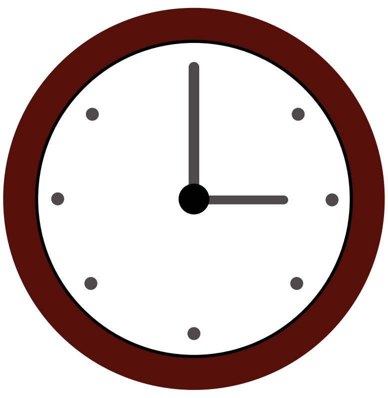
Total amount of money in economy is directly proportional to price level of goods & services in that economy

ASSUMPTIONS

- Quantity of goods & services produced & exchanged is fixed in short run
- Velocity of money is stable in short run
- Economy is operating at full employment

MV = PT

- M = Total amount of money in circulation
- V = Velocity of money
- P = Price Level
- T = Total number of transactions in an economy



EXPLANATION

- When M increases and V and T remain stable, Price level will rise to maintain the equality of the equation
- Similarly if money supply decreases, price level will fall to maintain the equality

EXAMPLE

Suppose total money supply = ₹100
Velocity of money is 2
If total transactions = 20, price level will be ₹10 {(₹100*2)/20}

If money supply increases to ₹150, V & T remaining same, price level will rise to ₹15 {(₹150*2)/20}