Lessons Learned

The Y and M Curves

With the Y and M curves we can see how different government policies impact \( P \) and \( r_e \).

The Christmas Eve Caper

If all assets are denominated in real terms the price level goes up in proportion to the increase in money.

If some assets are denominated in nominal terms the price level goes up.

Over time, the price level rises in proportion to the increase in the money supply. Money is Neutral.

Some General Propositions

- In Mudville, \( Y_R = 100 \)
- \( M_S = 100 \)
- \( V = 1 \)
- \( P = 1 \)
Some General Propositions

- In Mudville,
  \( Y_R = 100 \)
  \( M_S = 100 \)
  \( V = 1 \)
  \( P = 1 \)

Now Mudville doubles its money supply

Prices in Mudville

Conclusions

- Money is Neutral
  - Not necessarily initially
  - But certainly over time

A Temporary Spending Increase

P will rise, and perhaps r.

A Temporary Spending Increase

P will rise, and perhaps r.

These effects are temporary.
Lessons Learned

Prices in Spendville

Conclusions
- Temporary Programs Have Temporary Effects

Prices and Interest Rates in Spendville

End

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