Macroeconomic Theory After Keynes

The Monetarist Counterrevolution

Monetarist Propositions

1. **The supply of money is the dominant influence on nominal income.**

2. **In the long run, the influence of money is primarily on the price level and other nominal magnitudes. In the long run, real variables such as output and employment, are determined by real, not monetary, factors.**

Monetarist Propositions (cont'd)

3. In the short run, the supply of money does influence real variables. Money is the dominant factor causing cyclical movements in output and employment.

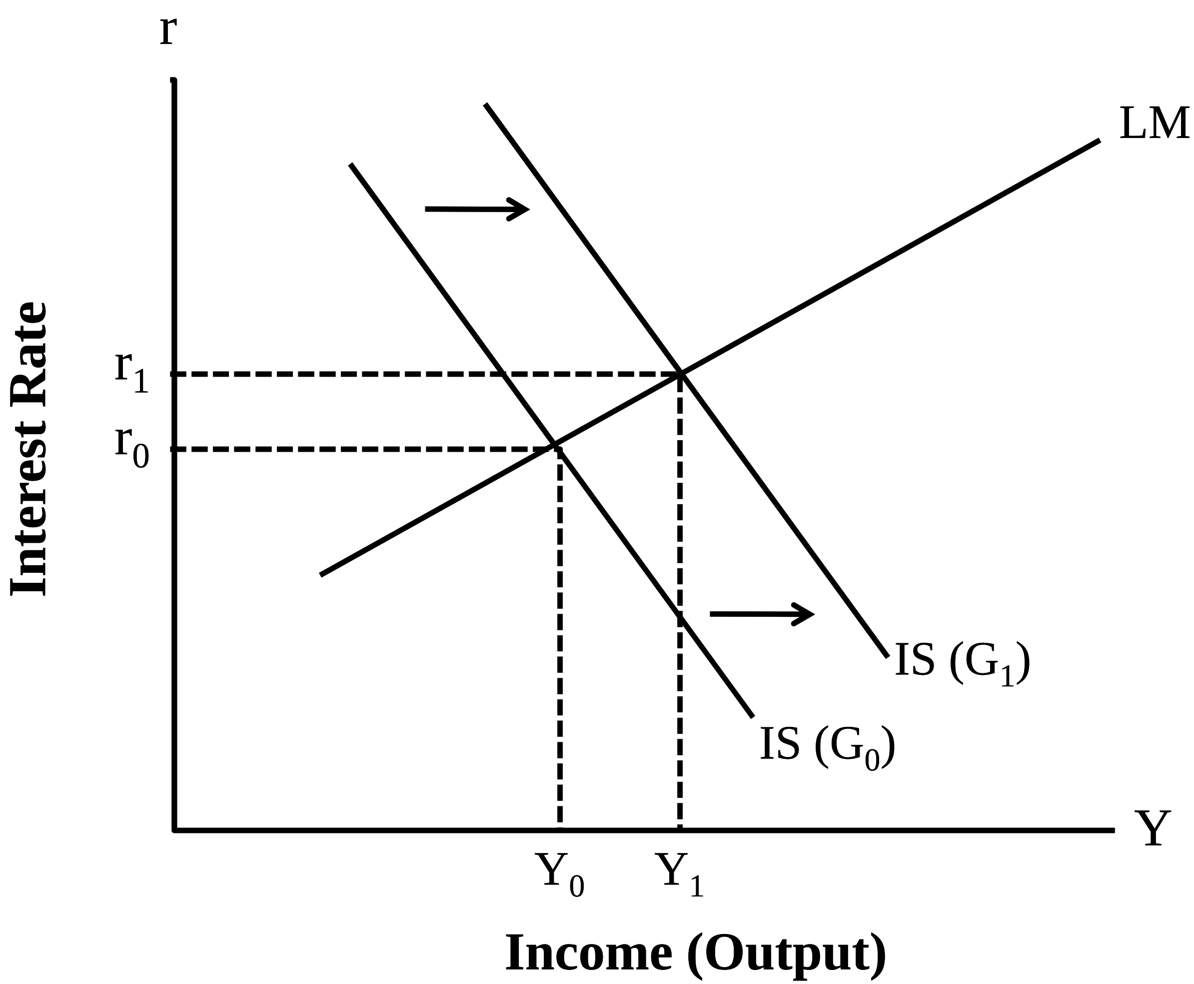
4. The private sector is inherently stable. Instability in the economy is primarily the result of government policies.

Monetarist Policy Conclusion

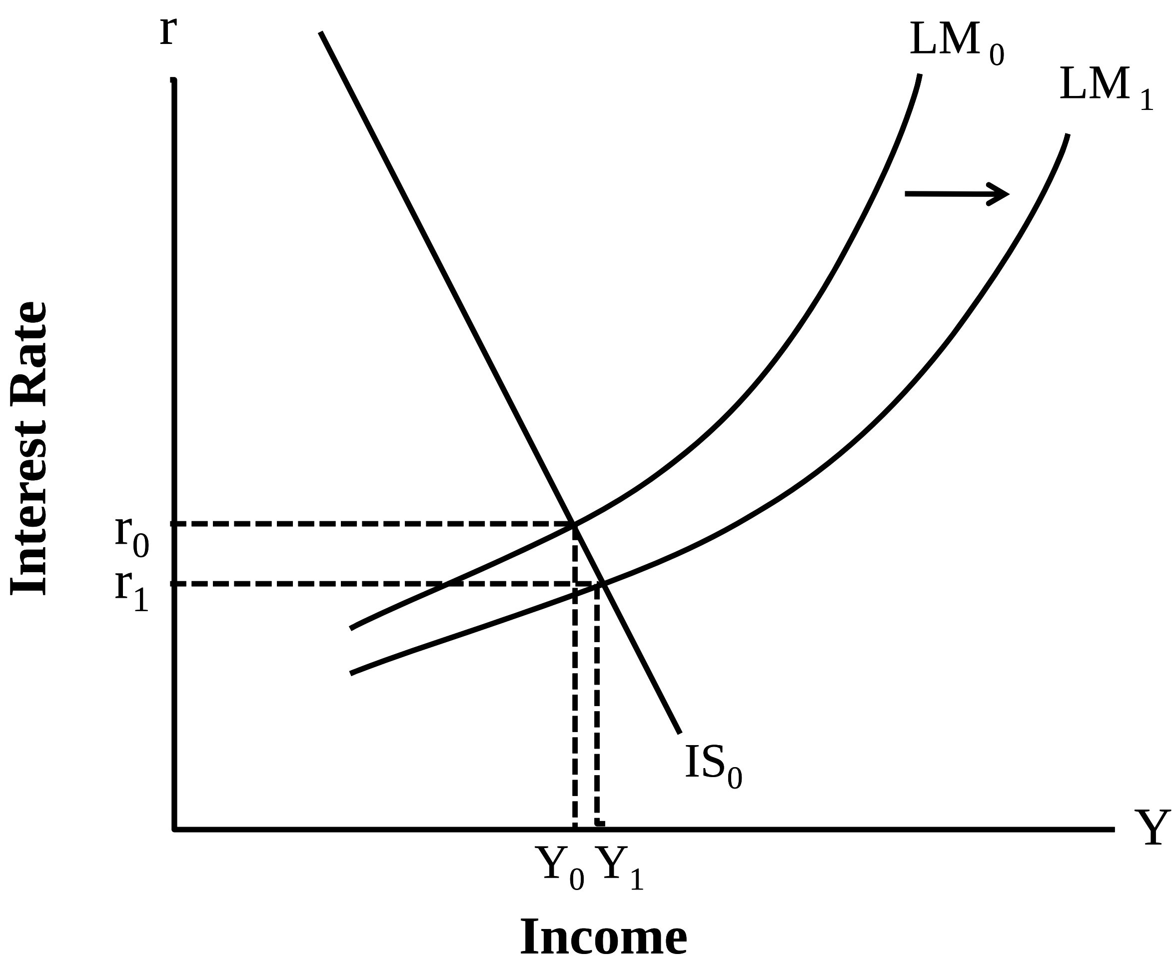
- **Stability in the growth of money supply is crucial for stability in the economy. The monetarists believe that such stability is best achieved by adopting a rule for monetary policy (Friedman proposed a constant growth rate for the money supply.)**

- **Fiscal policy, by itself, has little systematic effect on either real or nominal income. Fiscal policy is not an effective stabilization tool.**

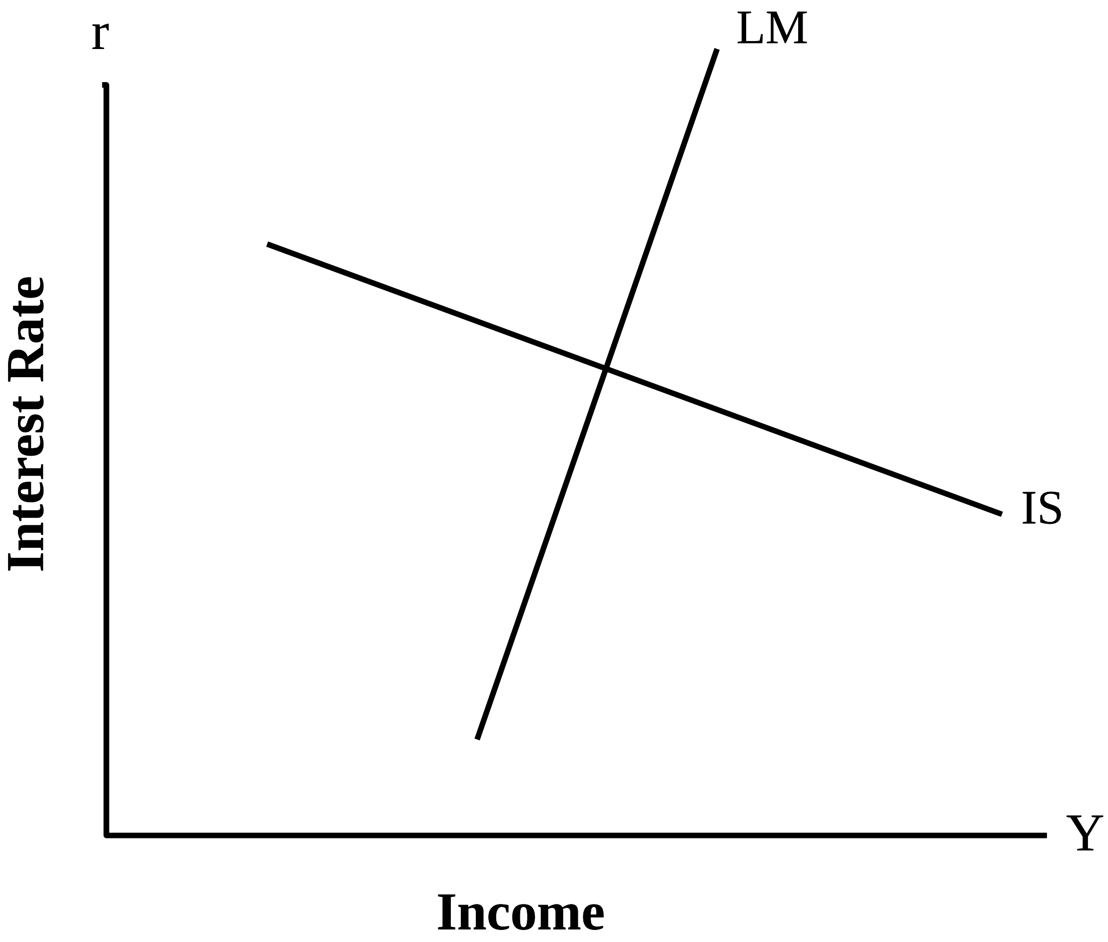
Effects of an Increase in Government Spending: The Keynesian View



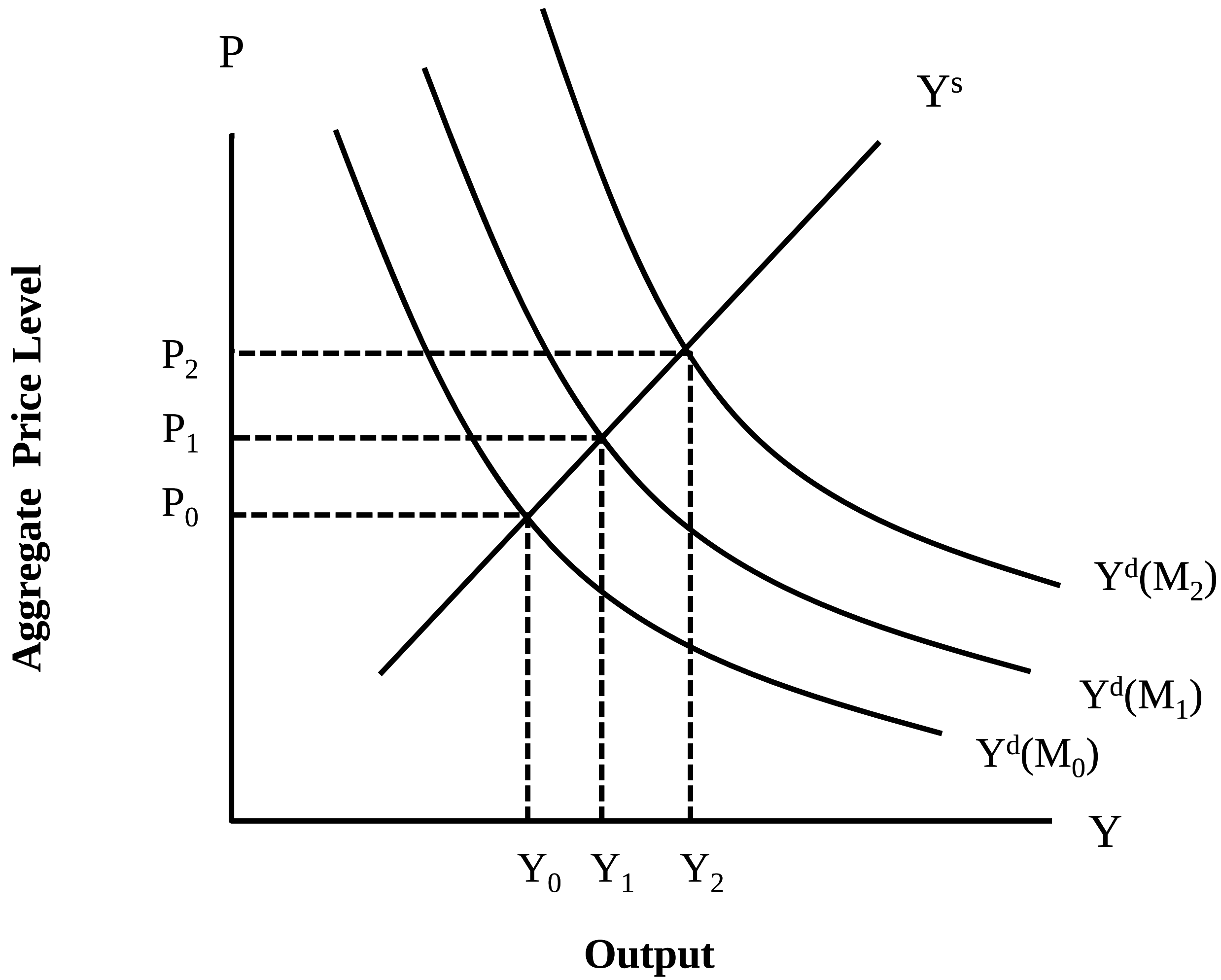
Early Keynesian View of Monetary Policy Ineffectiveness



IS-LM: A Monetarist Version



Aggregate Supply and Demand: The Monetarist View



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