# Quantity Theory of Money

## Answer the following questions about the quantity theory of money in the space provided.

1. Define each of the components of the quantity theory of money.

M:

V:

P:

Y:

PY:

1. Suppose velocity remains constant while the money supply increases. How will this impact nominal GDP?
2. The money supply equals $9,000 billion and velocity of money is 3. If real GDP is 4,000 billion, then what is the price level?
3. The money supply equals $4,000 and velocity of money is 4. The government budget is

$800, consumers spend $3,000 and investors spend $1,000. What is nominal GDP?

# Quantity Theory of Money Answer Key

## Answer the following questions about the quantity theory of money in the space provided.

* 1. Define each of the components of the quantity theory of money.

M: *Money Supply*

V: *Velocity of Money*

P: *Price Level*

Y: *Real GDP*

PY: *Nominal GDP*

## Suppose velocity remains constant while the money supply increases. How will this impact nominal GDP?

*Nominal GDP will increase.*

* 1. The money supply equals $9,000 billion and velocity of money is 3. If real GDP is 4,000 billion, then what is the price level?

*$9,000b (3) = P (4,000b)*

*$12,000b = P (4,000b)*

$12,000 *= P*

4,000

*P = $3*

* 1. The money supply equals $4,000 and velocity of money is 4. The government budget is

$800, consumers spend $3,000 and investors spend $1,000. What is nominal GDP?

*MV=PY*

*$4,000 (4) = PY*

*$16,000 = PY*