Christian and Labour
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The phenomenon of inflation and the standard of living: in development and in context

Almost everyone knows that ifnlation means

- Price growth (general average price levels),
- Decline in the purchasing power of money (value of money),
- Rising price of money (?),
- Rising interest rates,
- Cost growth,
- Exchange rate volatility.

Some people know the causes of inflation

- Supply shocks, black swans, war, covid,
- Cost (costs-push inflation); demand (demand-pull inflation),
- Expansionary monetary and expansionary fiscal policies,
- Too low unemployment.

Nobody knows how to correct the high inflation rate

A brief lesson from history

The gold standard – prevented hyperinflation, metallic currency,

Kingdom of Bohemia: Wenceslas III, John of Luxembourg "debasement of the coin" (A.D. 1311, 1327),

Spain: first half of the 15th century (David Hume),

Austria – state bankruptcy 1811 (fiscal expansion; 1816),

Weimar Republic: 1921-1923 (37 mld. of 132 mld. DM); J.M. Keynes:

Economic consequences of peace (1919).

Abolition of the gold standard16.8. 1971; Richard Nixon

Common denominator?

Money... Goods...

Money... Goods + services... (Product)

Money =(?) Product...

Quantity of money = quantity of product

Money offer = Product offer

per analogiam:

Product Demand = Money Demand

The equation of equilibrium, the equation of exchange...

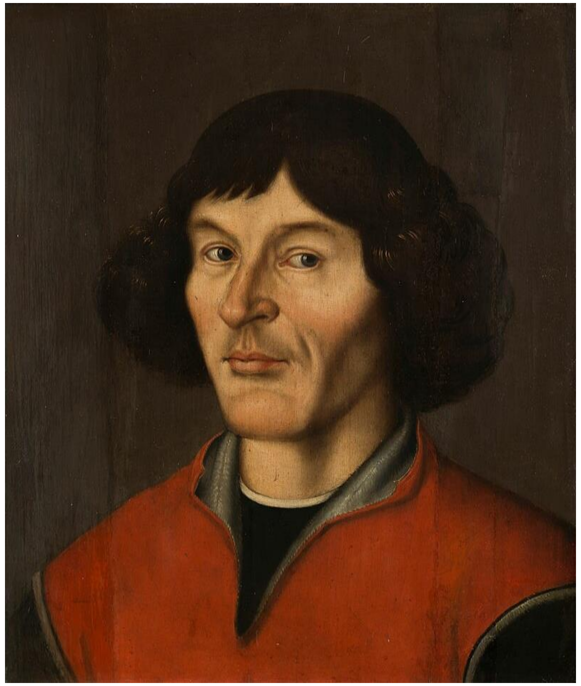
... Quantity theory of money

quantity theory of money:

"the oldest surviving theory in economics"

Nicolaus Copernicus

(1517)

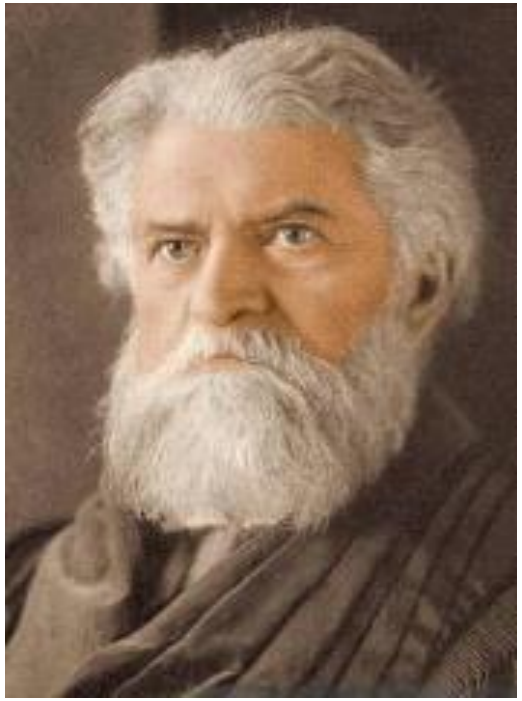


M. Azpilcueta

J. Bodin

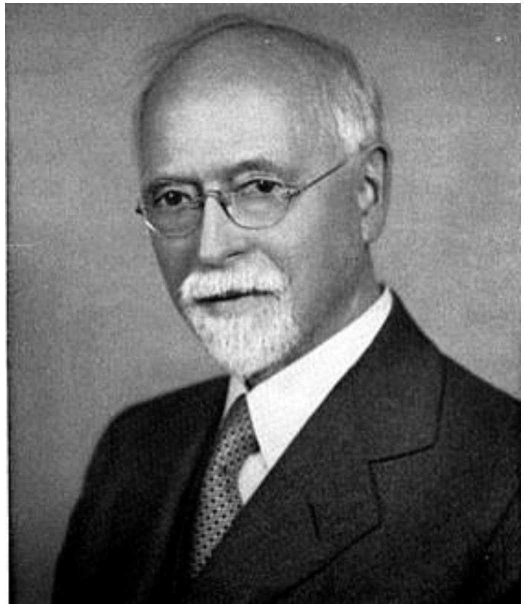
Simon Newcomb

(1885)



Irving Fisher

The purchasing power of money (1911)



$M \times V = P \times Q$

Money x Velocity = Price x Quantity

$M \times V > P \times Q$ ($\uparrow$ P) inflation

Milton Friedman
(1912-2006); 1963 *Inflation is a…*

"Inflation is always and everywhere a monetary phenomenon".

Inflation: Causes and consequences. In. *New York: Asia Publishing House.*

Summary and Lessons

- The monetary imbalance is permanent and ubiquitous in time and place,
- other variables change along with inflation,
- three main causes: monetary policy; fiscal policy; other influences,
- it is theoretically relatively well researched,
- Constant temptation: interest rates, fiscal expansion, social engineering,
- is the domain of central bank policy (constitution, laws),
- central bank instruments,
- the focus of the answer is in quantitative equilibrium.