Some Things You Should Already Know About Money, the Monetary System, Monetary Theory, and Monetary Policy

I. Misc. Definitions and Institutional Items

- Money is the set of assets people regularly use to buy goods and services.
- Functions of Money
  - Medium of exchange
  - Store of value
  - Unit of account
- Kinds of Money
  - Commodity money
  - Fiat money
- Federal Reserve System
  - Board of Governors and FOMC
  - Monetary policy tools
- Fractional Reserve Banking
  - Money multiplier
- Costs of Inflation

II. Money and the Economy in the Long-Run (Classical)

- Quantity Theory of Money
  \[ MV = PY \]
  \[ %\Delta M + %\Delta V = %\Delta P + %\Delta Y \]
  \[ %\Delta M = %\Delta P \]
  “Inflation is everywhere and always a monetary phenomenon.”
- Classical Dichotomy/Money Neutrality
  Classical Dichotomy: The theoretical separation of real and nominal variables in the classical model, which implies that nominal variables do not influence real variables (money is neutral).
- Fisher Equation/Fisher Effect
  \[ i = r + \pi \]
  Fisher Effect: The one-for-one adjustment of the nominal interest rate to the inflation rate.

III. Money and the Economy in the Short-Run (Keynesian)

- AD-SRAS-LRAS and Money Market
- Inflation-Output Tradeoff
  - Phillips curve
  - Natural rate hypothesis
  - Sacrifice ratio