

This PDF is a selection from an out-of-print volume from the National Bureau of Economic Research

Volume Title: A Theoretical Framework for Monetary Analysis

Volume Author/Editor: Milton Friedman

Volume Publisher: UMI

Volume ISBN: 0-87014-233-X

Volume URL: <http://www.nber.org/books/frie71-1>

Publication Date: 1971

Chapter Title: Front matter, "A THEORETICAL FRAMEWORK FOR MONETARY ANALYSIS"

Chapter Author: Milton Friedman

Chapter URL: <http://www.nber.org/chapters/c0910>

Chapter pages in book: (p. -8 - 0)

A THEORETICAL FRAMEWORK FOR
MONETARY ANALYSIS

MILTON FRIEDMAN
University of Chicago

NBER OCCASIONAL PAPER 112

NATIONAL BUREAU OF ECONOMIC RESEARCH
New York 1971

Distributed by Columbia University Press
New York and London

This is a study by the National Bureau of Economic Research based on two papers: "A Theoretical Framework for Monetary Analysis," and "A Monetary Theory of Nominal Income," which appeared in the *Journal of Political Economy*, Volume 78, Number 2, and Volume 79, Number 2, respectively.

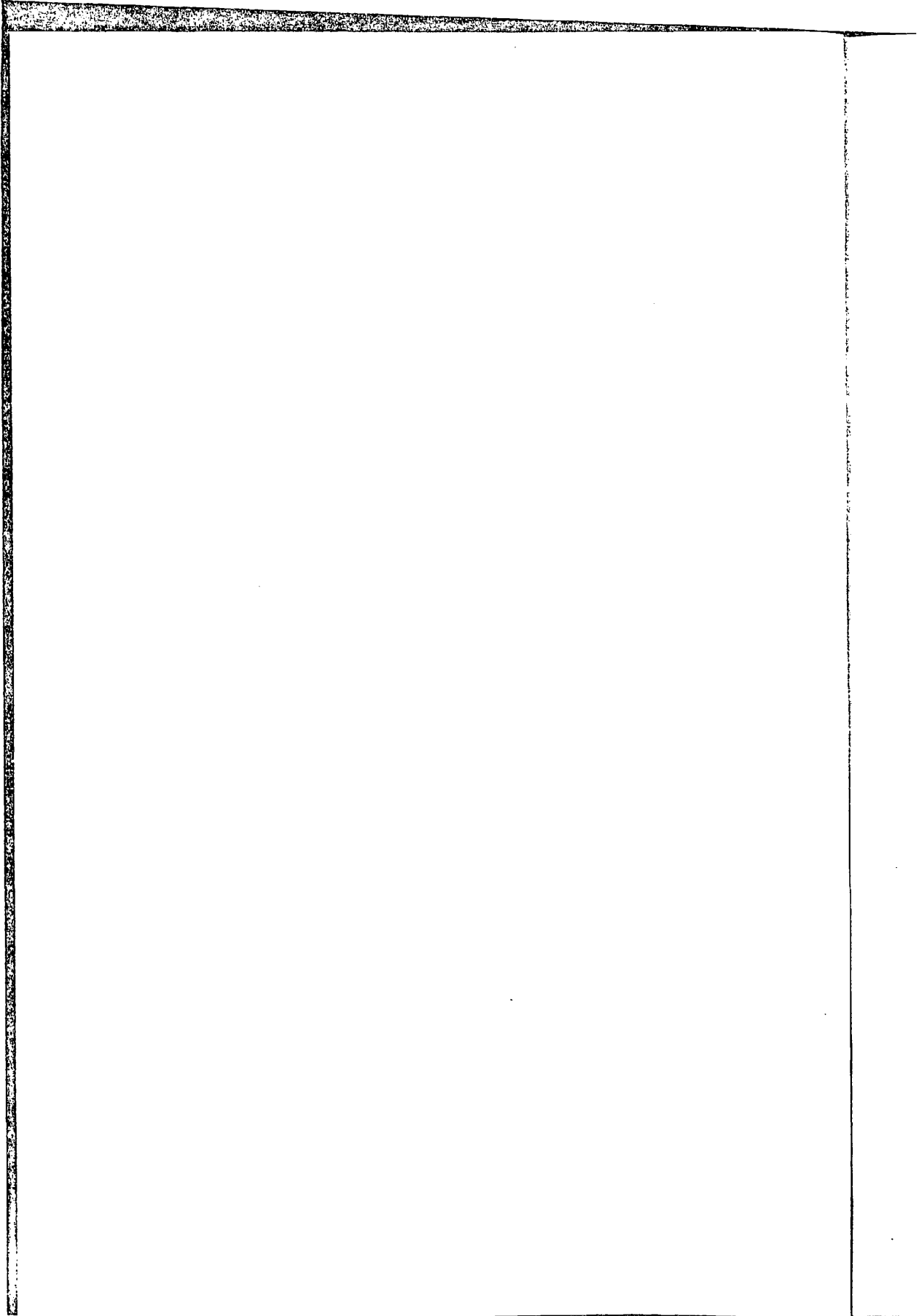
Library of Congress Catalog Card Number: 77-150319

ISBN-87014-233-X

Printed in the United States of America

205 1704

A THEORETICAL FRAMEWORK FOR MONETARY ANALYSIS



NATIONAL BUREAU OF ECONOMIC RESEARCH

OFFICERS

Arthur F. Burns, *Honorary Chairman*
 Theodore O. Yntema, *Chairman*
 Walter W. Heller, *Vice Chairman*
 John R. Meyer, *President*
 Thomas D. Flynn, *Treasurer*
 Douglas H. Eldridge, *Vice President-Executive Secretary*
 Victor R. Fuchs, *Vice President-Research*
 F. Thomas Juster, *Vice President-Research*
 Hal B. Lary, *Vice President-Research*
 Robert E. Lipsey, *Vice President-Research*
 Edward K. Smith, *Vice President*
 Joan R. Tron, *Director of Publications*

DIRECTORS AT LARGE

Atherton Bean, *International Multifoods Corporation*
 Joseph A. Beirne, *Communications Workers of America*
 Arthur F. Burns, *Board of Governors of the Federal Reserve System*
 Wallace J. Campbell, *Foundation for Cooperative Housing*
 Erwin D. Canham, *Christian Science Monitor*
 Robert A. Charpie, *The Cabot Corporation*
 Solomon Fabricant, *New York University*
 Frank W. Fetter, *Hanover, New Hampshire*
 Eugene P. Foley, *Dreyfus Corporation*
 Eli Goldston, *Eastern Gas and Fuel Associates*
 Crawford H. Greenewalt, *E. I. du Pont de Nemours & Company*
 David L. Grove, *International Business Machines Corporation*
 Walter W. Heller, *University of Minnesota*
 Vivian W. Henderson, *Clark College*
 John R. Meyer, *Yale University*
 J. Irwin Miller, *Cummins Engine Company, Inc.*
 Geoffrey H. Moore, *Bureau of Labor Statistics*
 J. Wilson Newman, *Dun & Bradstreet, Inc.*
 James J. O'Leary, *United States Trust Company of New York*
 Robert V. Roosa, *Brown Brothers Harriman & Co.*
 Boris Shishkin, *American Federation of Labor and Congress of Industrial Organizations*
 Lazare Teper, *International Ladies' Garment Workers' Union*
 Donald B. Woodward, *Riverside, Connecticut*
 Theodore O. Yntema, *Oakland University*

DIRECTORS BY UNIVERSITY APPOINTMENT

Moses Abramovitz, *Stanford*
 Charles H. Berry, *Princeton*
 Francis M. Boddy, *Minnesota*
 Tom E. Davis, *Cornell*
 Otto Eckstein, *Harvard*
 Walter D. Fisher, *Northwestern*
 R. A. Gordon, *California*
 Robert J. Lampman, *Wisconsin*
 Kelvin J. Lancaster, *Columbia*
 Maurice W. Lee, *North Carolina*
 Lloyd G. Reynolds, *Yale*
 Robert M. Solow, *Massachusetts Institute of Technology*
 Henri Theil, *Chicago*
 Thomas A. Wilson, *Toronto*
 Willis J. Winn, *Pennsylvania*

DIRECTORS BY APPOINTMENT OF OTHER ORGANIZATIONS

Emilio G. Collado, *Committee for Economic Development*
 Thomas D. Flynn, *American Institute of Certified Public Accountants*
 Nathaniel Goldfinger, *American Federation of Labor and Congress of Industrial Organizations*
 Harold G. Halcrow, *American Agricultural Economics Association*
 Douglas G. Hartle, *Canadian Economics Association*
 Walter E. Hoadley, *American Finance Association*
 Douglass C. North, *Economic History Association*
 Charles B. Reeder, *National Association of Business Economists*
 Murray Shields, *American Management Association*
 Willard L. Thorp, *American Economic Association*
 W. Allen Wallis, *American Statistical Association*

DIRECTORS EMERITI

Percival F. Brundage
 Gottfried Haberler
 Albert J. Hettinger, Jr.
 George B. Roberts
 Joseph H. Willits

SENIOR RESEARCH STAFF

Gary S. Becker	Raymond W. Goldsmith	Irving B. Kravis	M. Ishaq Nadiri
Charlotte Boschan	Jack M. Guttentag	Hal B. Lary	Nancy Ruggles
Phillip Cagan	Daniel M. Holland	Robert E. Lipsey	Richard Ruggles
James S. Earley	F. Thomas Juster	John R. Meyer	Anna J. Schwartz
Solomon Fabricant	C. Harry Kahn	Jacob Mincer	Robert P. Shay
Milton Friedman	John F. Kain	Ilse Mintz	George J. Stigler
Victor R. Fuchs	John W. Kendrick	Geoffrey H. Moore*	Victor Zarnowitz

* On leave.

RELATION OF THE DIRECTORS TO THE WORK AND PUBLICATIONS
OF THE NATIONAL BUREAU OF ECONOMIC RESEARCH

1. The object of the National Bureau of Economic Research is to ascertain and to present to the public important economic facts and their interpretation in a scientific and impartial manner. The Board of Directors is charged with the responsibility of ensuring that the work of the National Bureau is carried on in strict conformity with this object.

2. The President of the National Bureau shall submit to the Board of Directors, or to its Executive Committee, for their formal adoption all specific proposals for research to be instituted.

3. No research report shall be published until the President shall have submitted to each member of the Board the manuscript proposed for publication, and such information as will, in his opinion and in the opinion of the author, serve to determine the suitability of the report for publication in accordance with the principles of the National Bureau. Each manuscript shall contain a summary drawing attention to the nature and treatment of the problem studied, the character of the data and their utilization in the report, and the main conclusions reached.

4. For each manuscript so submitted, a special committee of the Board shall be appointed by majority agreement of the President and Vice Presidents (or by the Executive Committee in case of inability to decide on the part of the President and Vice Presidents), consisting of three directors selected as nearly as may be one from each general division of the Board. The names of the special manuscript committee shall be stated to each Director when the manuscript is submitted to him. It shall be the duty of each member of the special manuscript committee to read the manuscript. If each member of the manuscript committee signifies his approval within thirty days of the transmittal of the manuscript, the report may be published. If at the end of that period any member of the manuscript committee withholds his approval, the President shall then notify each member of the Board, requesting approval or disapproval of publication, and thirty days additional shall be granted for this purpose. The manuscript shall then not be published unless at least a majority of the entire Board who shall have voted on the proposal within the time fixed for the receipt of votes shall have approved.

5. No manuscript may be published, though approved by each member of the special manuscript committee, until forty-five days have elapsed from the transmittal of the report in manuscript form. The interval is allowed for the receipt of any memorandum of dissent or reservation, together with a brief statement of his reasons, that any member may wish to express; and such memorandum of dissent or reservation shall be published with the manuscript if he so desires. Publication does not, however, imply that each member of the Board has read the manuscript, or that either members of the Board in general or the special committee have passed on its validity in every detail.

6. Publications of the National Bureau issued for informational purposes concerning the work of the Bureau and its staff, or issued to inform the public of activities of Bureau staff, and volumes issued as a result of various conferences involving the National Bureau shall contain a specific disclaimer noting that such publication has not passed through the normal review procedures required in this resolution. The Executive Committee of the Board is charged with review of all such publications from time to time to ensure that they do not take on the character of formal research reports of the National Bureau, requiring formal Board approval.

7. Unless otherwise determined by the Board or exempted by the terms of paragraph 6, a copy of this resolution shall be printed in each National Bureau publication.

*(Resolution adopted October 25, 1926, and revised February 6, 1933,
February 24, 1941, and April 20, 1968)*

CONTENTS

Introduction

1. The Quantity Theory: Nominal versus Real Quantity of Money	1
2. Quantity Equations	3
3. Supply of Money in Nominal Units	10
4. The Demand for Money	11
5. The Keynesian Challenge to the Quantity Theory	15
6. A Simple Common Model	29
7. The Missing Equation: Three Approaches	31
8. The Missing Equation: The Third Approach Examined	34
9. Some Dynamic Implications of the Monetary Theory of Nominal Income	40
10. Comparison of the Three Approaches	43
11. Correspondence of the Monetary Theory of Nominal Income with Experience	46
12. The Adjustment Process	48
13. An Illustration	55
14. Conclusion	61

