

IMPACT OF MONEY SUPPLY ON OUTPUT AND PRICES

A CASE STUDY OF PAKISTAN

By

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Abstract

Purpose- This paper is an attempt to find out the impact of an increase in money supply on the output and price level in Pakistan. Output is expressed in terms of Real GDP and price level is measured through GDP Deflator.

Methodology/sample- The study covers a period of 30 years i.e. from 1981 to 2010. The study is conducted to find out the efficacy of economic theory (Keynesian or Monetarist) that holds true for Pakistan.

Findings- The results found state that Keynesian theory applies in case of Pakistan. Results negate the monetarist proposition that inflation is only a monetary phenomenon.

Practical Implications- Paper further proceeds to provide some policy recommendations and areas for future research to help policy makers to make economic policies that attain sustained economic growth and control inflation.

Keywords: Money supply, M2, Inflation, Real GDP, GDP Deflator, Keynesian, Monetarists.

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