

## Learning Objectives

### Chapter 30

#### In this chapter you will

- See why inflation results from rapid growth in the money supply
- Learn what determines monetary equilibrium in an economy
- Examine the quantity theory of money
- Learn the meaning of the classical dichotomy and monetary neutrality
- See why some countries print so much money that they experience hyperinflation
- Examine how the nominal interest rate responds to the inflation rate
- Consider the various costs that inflation imposes on society
- See how deflation can be damaging to an economy

#### You should be able to

- Demonstrate the link between money and prices with the quantity equation
- Explain why money has no impact on real variables in the long run
- Explain the concept of an inflation tax
- Show the relationship between the nominal interest rate, the real interest rate, and the inflation rate
- Explain at least three costs of inflation to an economy
- Explain who gains and who loses on a loan contract when inflation rises unexpectedly
- Explain how deflation can be as damaging to an economy as inflation