

# Reflection exercise 9

New Ideas from Dead Economists

January 26, 2022

## 1 What did you learn about Milton Friedman's contributions in the following areas?

- Role of money and monetary policy in the economy

- School choice

- Taxation

- exchange rate system

- 2 We learned that the major building block of the monetarists argument of why money matters is the Quantity Theory of Money. This theory is summarized by the equation,  $MV = PQ$ . Based on this theory, how should the monetary policy be conducted by the Fed? Next, does the Fed follow this rule now? Why or why not?
- 3 Monetarists are credited with changing the way economists and policymakers look/use monetary policy. They essentially popularized monetary policy tools for managing business cycles. Before monetary policy tools were popular, Macroeconomic policy relied heavily on Keynesian economics, which prescribes that fiscal policy is sufficient to manage business cycles. Reflect on the importance these policy tools play in an economy. You should try to draw from your experience of how the United States managed the 2007-9 financial crisis and the recent COVID-19 pandemic induced recession to assess the role of these policies. Based on these experiences, please provide your prescription of how the policymakers should manage business cycles. Your answer should be grounded on the role of fiscal and monetary policy.