Theory Of Money

(c) Barter system: Involves transactions that take place without the use of money. Such transactions are either discarded or considered to increase the quantity of money.

(d) Volume of transactions:
Requires to be constant. Volume of transactions refers not only to the amount of goods and services exchanged, but the number of times money changes hand.

Prof. Irvin Fisher has provided a formula for explaining the relationship between quantity of money and its value, which is as follows:
$P = MV + M'V'/T$

Where, P = Price level/Value of money

M = Metallic money

M' = Credit money

V = Velocity of metallic money

V = Velocity of credit money

T = Transactions performed by money

In the preceding formula, the supply and demand of money becomes equal. When the price level is multiplied by the transactions performed by money, it provides the total value of transactions (PT). It is also termed as the demand for money. PT is equal to the supply of money as it includes cash and credit instruments along with their velocities (MV + M'V'), which is described as follows:

PT= MV + M'V'

MV + M'V'/T

According to Fisher, in short-run, the values of T, V, and V remain constant. In addition, the proportional change between M' and M also remains constant. Therefore, P and M are directly proportional to each other. In other words, the value of money (I/P) is inversely proportional to quantity of money (M).