MODULE 39

# 39 Money, Output, and Prices in the Long Run

# Money, Output, and Prices

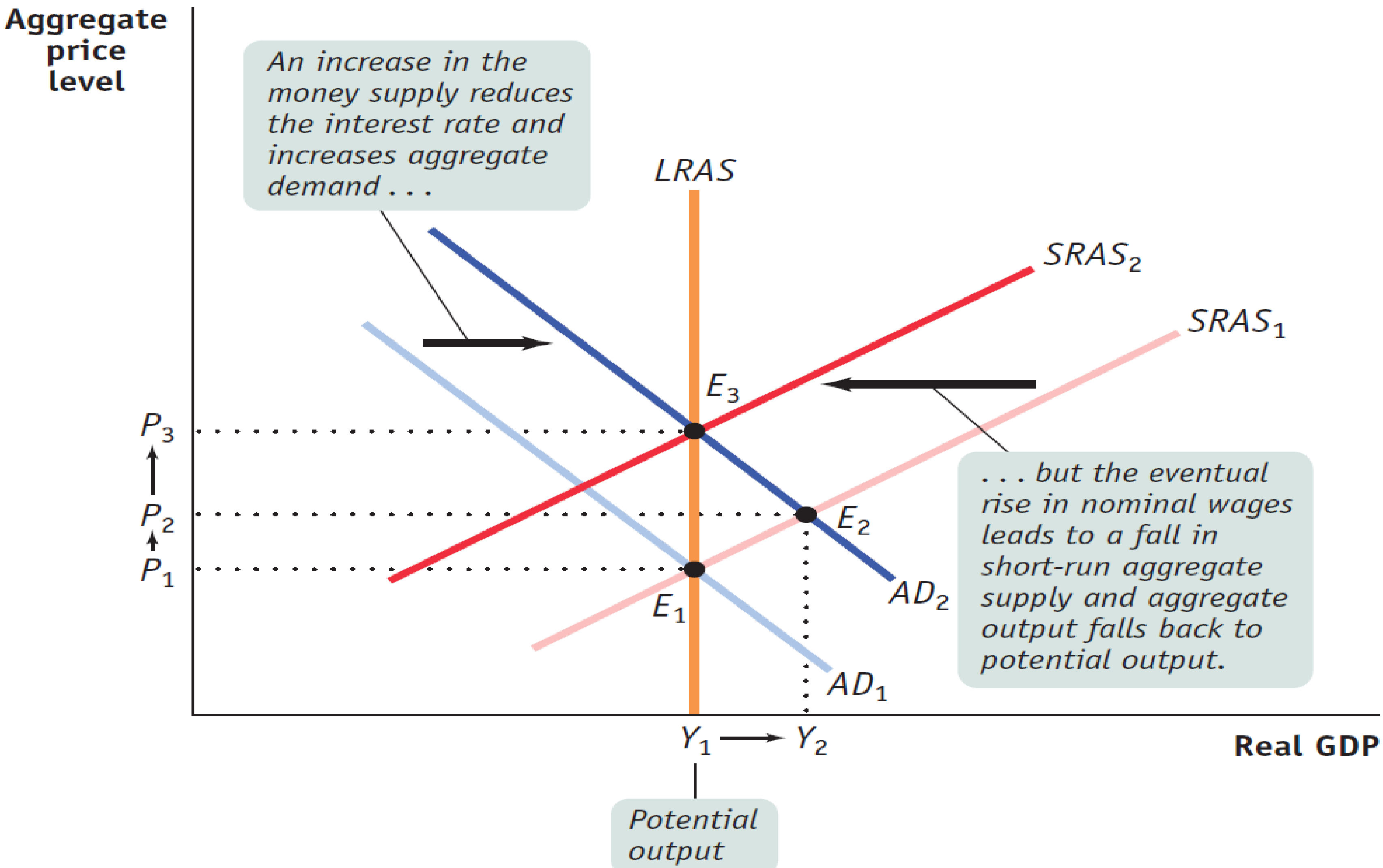
- Because of its **shorter lags**, monetary policy is generally the policy tool of choice to help stabilize the economy.

- The economy is **self-correcting** in the long run: a demand shock has only a temporary effect on aggregate output.

# Monetary Neutrality

- In the long run, changes in the money supply affect the aggregate price level but not real GDP.
- In fact, there is **monetary neutrality** in the long run.  Changes in the money supply have no affect on the real economy in the long run.

# The SR and LR Effects of Monetary Policy



# Economics in Action