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Journal Entry: The Quantity-Theory of Money

Throughout *The Quantity-Theory of Money*, Laughlin argues against viewpoints on the determinants for price in the quantity-theory of money. To start, he introduces his opinion that there are two terms to the price ratio. The first is "those touching the standard", and the second is "those touching the demand and supply of goods". After presenting his case, he describes the argument for which he critiques throughout the remaining article. The critiqued argument is from the quantity-theorists, who are claimants of the idea that prices are only determined by demand, instead of supply, or the processes for covering any expenses related to maintaining competitive prices caused by production costs. He first counters their theory by laying out the reason for incorporating supply into prices, which is that production costs precede the creation of any prices for intermediate or finished goods. Moreover, Laughlin describes demand as a product dependent mostly on the purchasing power of an individual. The amount of money of an individual won't influence how much they desire a good, rather their current valuable goods and property that can be changed into money will influence their desire to exchange for a new product. These goods and property also have production costs that occur before any money is utilized to create the price as a media of exchange, so supply is still an integral part of price-making. Further, Laughlin reveals that price is also determined by a change in the standard, which is a commodity good like silver or gold. Essentially, money and credit cannot create the price of goods because they are the same; quantity-theorists are creating an illogical argument.

Laughlin uses logical economic explanations to support his counterargument against the quantity-theorists. He mostly uses counters against his own argument, historic data, and examples to support his claims. For example, on page 272, he mentions that there have been instances when price level and the quantity of money had moved together. This data helps to further his argument, which supports the idea that production costs are part of the driving factors for price-making. Additionally, he provides an example on page 273, where he exemplifies the way in which price equals the amount of money in the market. Also, he presents an interesting counter argument in subsection 8. He describes the phenomenon that shows a change in price level explained by an increase in the amount of credit. This occurs when there is rampant inflation.

He presents many compelling arguments that make sense because his reasoning is very intuitive and understandable. It is not very complicated and makes sense to the general audience. All economic papers should be comprehensible for a general audience, because one shouldn't need to use excessive vocabulary to explain what people experience in their day-to-day exchanges within the market. Also, I agree that his argument is relevant to what we have learned in class, because it relates to how money doesn't determine the value of goods. Goods have value that is determined by demand and production costs. Therefore, money reflects this value, because it is also compared to some standard, which is a commodity good. Conclusively, I would not write this article differently, because it is very straight to the point and lacks confusing vocabulary.