Solutions

Each answer shows the steps, then the **result**.

2.1

- $MV = PQ$

2.2

- it causes inflation (a rise in the price level)

2.3

- in the long run a change in the money supply changes the price level but not real output or employment

3.1 A

3.2 B

3.3

(a)

- it roughly doubles (the price level rises)

(b)

- the neutrality of money