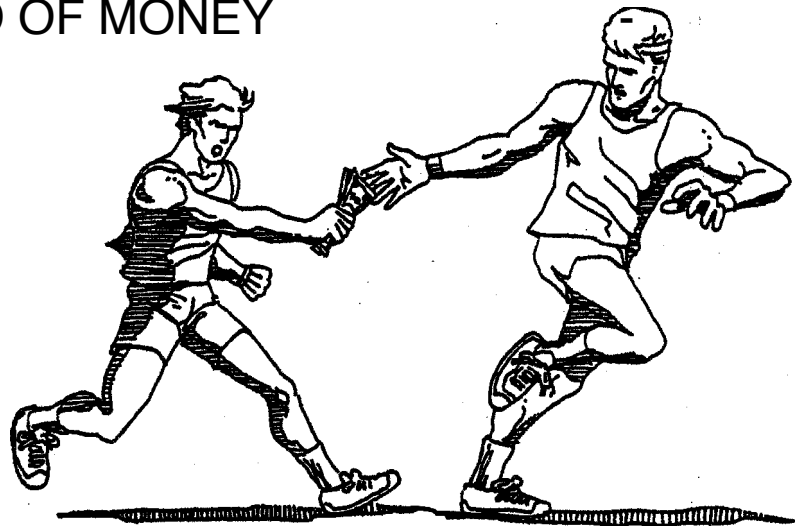


VELOCITY: THE SPEED OF MONEY



Velocity is defined as the number of times per year an "average dollar" is spent on goods and services.

$$\text{Velocity} = \frac{\text{Nominal GDP}}{\text{M1}}$$

So, if GDP = \$4500 billion and M1 = \$900 billion, velocity is

What would speed up velocity? Anything that causes people to want to hold less cash. means money circulates faster - velocity rises.

Would the following cause velocity to rise?

- a) use of credit cards
- b) ATM's at banks
- c) people receive paychecks more frequently
- d) lower interest rates
- e) higher rate of inflation

Bonus: If velocity is rising, does the Fed have to pump In more M1 to stimulate the economy?