

Q1 Distinguish between Fisher's Quantity Theory and Cambridge Version

The Fisherian version of the quantity theory ~~is~~ of money is called the cash transactions approach, while the Cambridge version of the quantity theory ^{of money} is called the cash balance approach to quantity theory.

Both the approaches have some gross similarities as follows:

Similarities:

(i) price level or the value of money depends upon the quantity of money.

(ii) The cash balance equation $P = \frac{M}{KT}$ of Robertson is very much similar to the cash transaction equation $P = \frac{MV}{T}$ of Fisher.

(iii) Both the approaches emphasise the medium of exchange function of money.

~~Dis~~

Differences between the two approaches:

In spite of the differences ^{similarities} between the two approaches, there are many differences between them in respects of the concept of money supply, demand for money etc.

A comparison between the two approaches is given in the following table:

Fisherian cash
Transactions approach

$$i) PT = MV$$

$$\text{or, } P = \frac{MV}{T}$$

P = price level, T = total amount of goods and services
= money supply, V =

Cambridge cash
balance approach

$$i) \text{ ~~M = kPT~~ }$$

$$P = \frac{M}{kT}$$

Where k = constant fraction.

^{value}
velocity of
circulation of
money.]

(i) Money is demanded
for transactions
purposes.

(ii) Money is flow
concept.

(iii) Velocity of
circulation of money
(iv) is emphasised
by Fisher.

(v) Money is requ-
required during
a period of
time.

(vi) P is the
average price level.

(i) Money is demanded
for store of value.

(ii) Money is a stock
concept.

(iii) ~~emp~~ Keeping of
idle balance kept
as a part of income
is emphasised by
Pigou.

(iv) Money is held during
a given point of time.

(v) P is the price of
final product in
the market.

(vi) Long period analysis (supply side) is more important.

$$(vii) v = \frac{1}{k}$$

(viii) Short period analysis (demand side) is more important.

$$(viii) k = \frac{1}{v}$$

Superiority of cash balance approach over cash transaction approach:

On the basis of the above comparative study, we can say that the cash balance approach is superior to the cash transaction approach due to the following considerations:

(i) Humanistic approach:

The Cambridge equation ~~equa~~ equations study and emphasise on

k. which becomes important factor
affecting human motives,
expectations, uncertainty (अनिश्चितता) etc.

as opposed to the Fisherian version
version which is mechanistic in
the sense that it does not
explain how changes in the volume
of money bring about ~~in the~~ change
in the price level.

(ii) Better (mode) of thinking:

The Cambridge version is con-
cerned with the level of income
as against Fisherian consideration
of the total number of transactions.
This notion (नियति) has made
the way for a new mode of
thinking in modern economics.

(iii) Integration between value
theory and Monetary theory:

to total expenditure.

Conclusion:

On the basis of the above-~~men~~ considerations, we conclude that the Cambridge cash balance approach is superior to the Fisherian cash Transaction approach. According to A. C. L. Dey, the Cambridge approach concentrates not on total volume of transactions, but on the level of income. This makes the approach more useful both from analytical and practical viewpoints.