



Classical Dichotomy

Content Review

- ▶ Classical Dichotomy: real variables are determined by real factors, while nominal variables are determined by money supply.
- ▶ Real variables: output, employment, relative prices, real wages, real interest rates, etc.
- ▶ Nominal variables: price level, nominal wages, nominal interest rates, etc.
- ▶ Implication: monetary policy cannot influence equilibrium outcomes of real variables – i.e. money is neutral.
- ▶ In the data, long run money neutrality is strongly evidenced, but short run neutrality is not.