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Money and Output

A. Mohammed Abubakar* and Mustafa Ilkan

Eastern Mediterranean University, P.O Box 95 Gazimagusa, North Cyprus, Mersin 10, Turkey

The relationship between money and output is based on "quantum theory of money and production". Perhaps, this is a new way of looking at the role of money in a production. Quantum theory of money and production states that "income is the instantaneous result of an event called production which is related to a limited period of time". Bortis [1] added that every time a new production takes place, its measure is given instantaneously through the monetary payment of its cost.

Money and output are interchangeable as output is associated with a positive emission of money–when financial intermediaries grant loan to entrepreneurs this leads to creation of bank deposits. Final purchases are associated with negative emission–because they allow entrepreneurs to pay off their bank loans, and as such imply a destruction of the bank deposits [1]. Thus, any time a positive amount of money flows in one direction (money creation), it simultaneously reflows back (money destruction). Money therefore never exists in continuous time and all money is credit money and this implies that the quantity of credit money is always zero due to its initial creation and final destruction [2,3].

According to Rossi [4], in the neoclassical framework the value of money remains unexplained because it is said to depend on a measure, i.e. the market price level, which can only be determined after the actual exchange of goods and services. Let's, take a look at some macroeconomic variables; for example a rise in national wage would lead to an increase in both money and output, because people will purchase more and manufacturers will produce more as such leaving the relationship between the two unchanged. Secondly an increase or decrease in tax would leave the money-output relationship unchanged. Why? because taxes are redistribution of income between individuals and the state. Further, high level of savings takes the form of deposits, lowers cost of borrowing and thus encourage entrepreneurs to borrow and invest. On the other hand low-savings increases the cost of borrowing and thus discourage entrepreneurs. Finally the relationship between the money and output does not change.

The quantum theoretical framework concluded that "money and output are not two distinct, and independent, things. Suggesting that Money is the numerical 'container' whose freight is given by the newly produced output. As such, money and output move in the same direction; just like to the case of a truck transporting its load" [4].

Since money carries output, or money is loaded with output. Then the money that carries no output is empty money which leads to change in the relationship between money and output and subsequently results to inflation. Empty money would simply be that part of saving which flows into the financial circulation [5] and is looking for a "load". The current monetary system needs structural reform in order to avoid circulation of empty–money.

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***Corresponding author:** A. Mohammed Abubakar, Eastern Mediterranean University, P.O Box 95 Gazimagusa, North Cyprus, Mersin 10, Turkey, Tel: 00905428766882; Fax: 00903923651574; E-mail: mohammed.abubakar@cc.emu.edu.tr

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