

# The Monetary Transmission Mechanism: Theory and Case Studies

John Greenwood

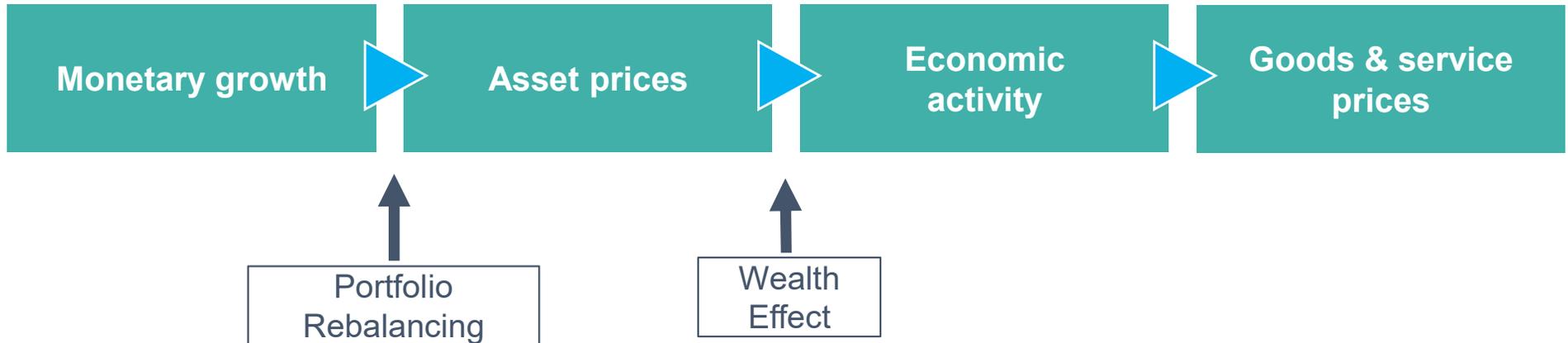
International Monetary Monitor Ltd.

September 2023

*“Monetary policy is not about interest rates; it is about the growth of the quantity of (broad) money” Milton Friedman*

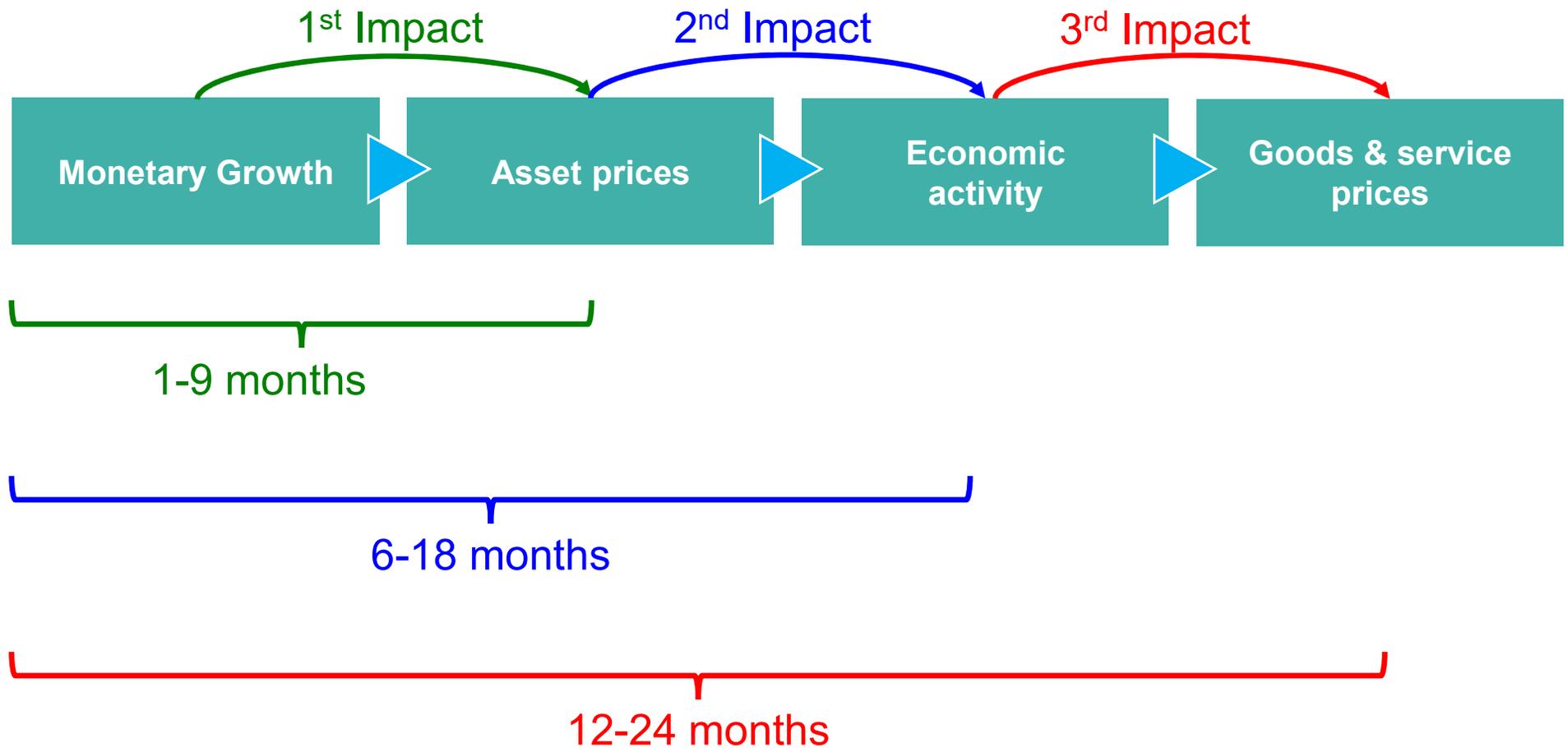
# Money Drives the Business Cycle

## Understanding the Transmission Mechanism



- *“Monetary policy is not about interest rates; it is about the rate of growth of the quantity of (broad) money.” (Milton Friedman)*
- This also means that the transmission of faster or slower money growth is mainly through asset prices, not interest rates.

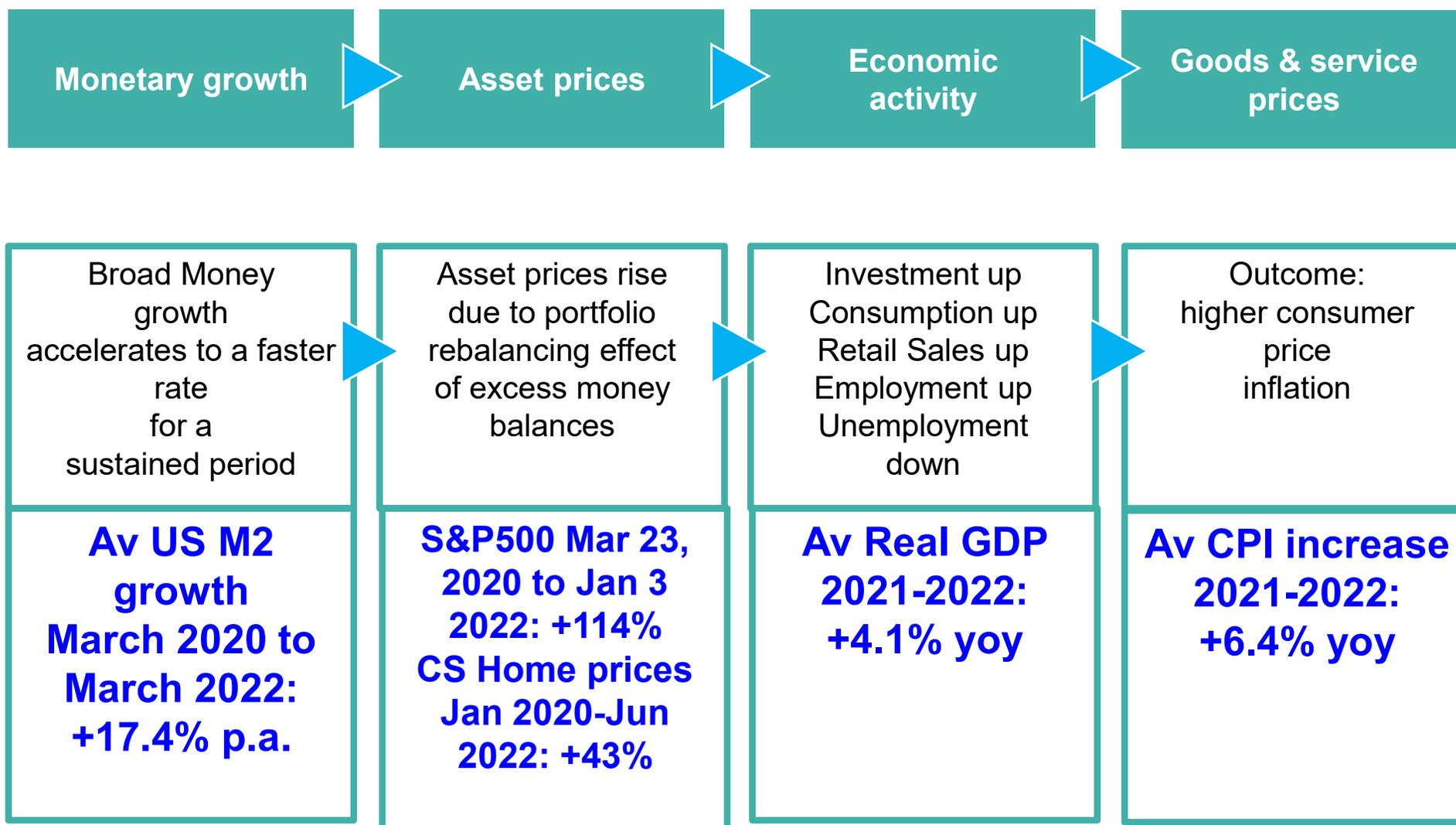
# Monetary growth: the lags in effect



•For illustrative purposes only.

# Business Cycle Transmission Mechanism

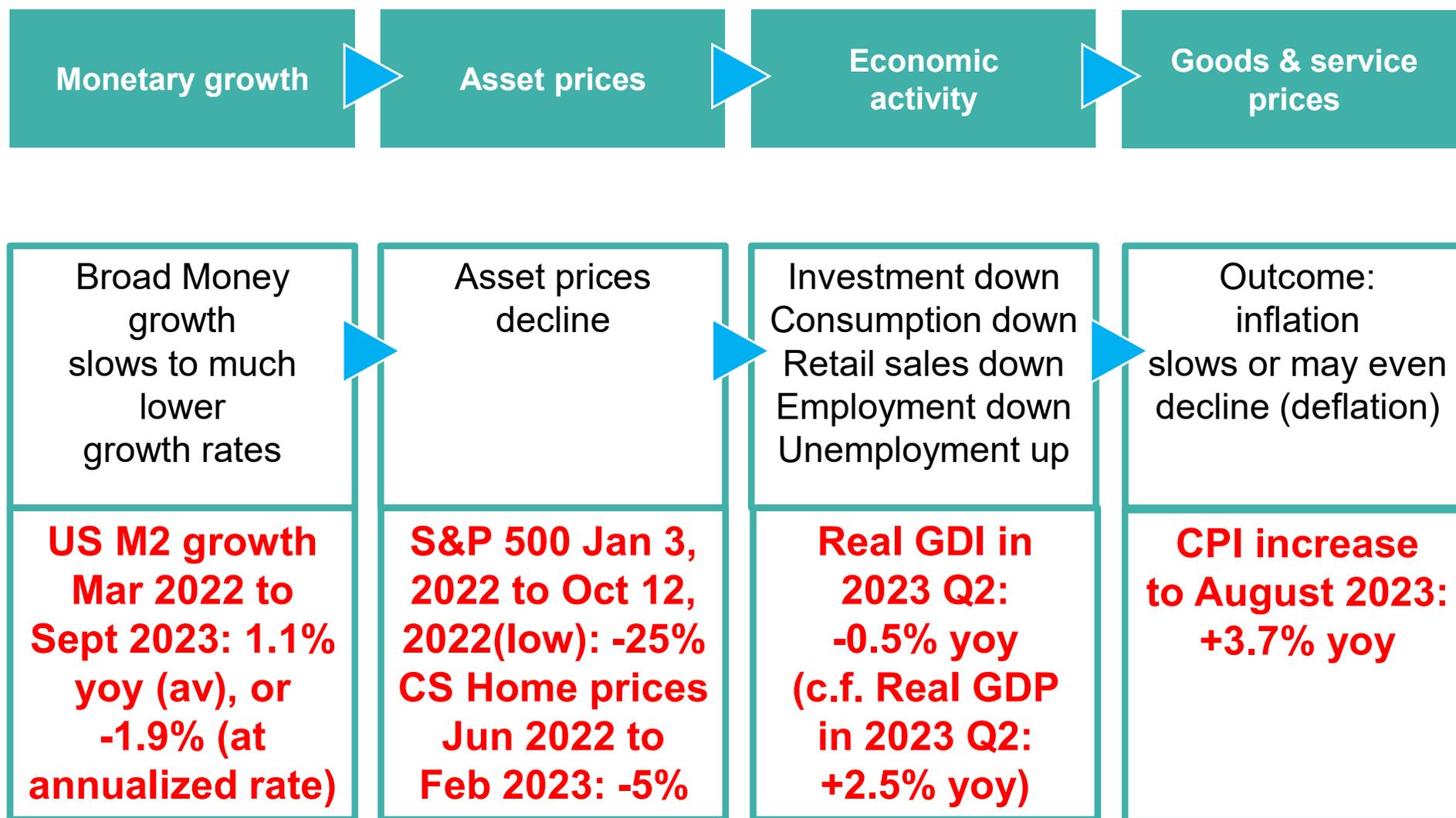
## CASE STUDY OF THE US MONETARY EXPANSION, 2020-21



\*For illustrative purposes only.

# Business Cycle Transmission Mechanism

## CASE STUDY OF THE US MONETARY DOWNTURN, 2022-23



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