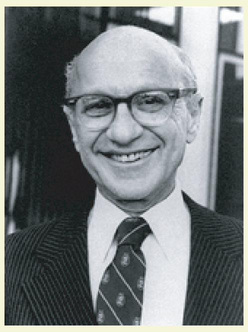
Who is Milton Friedman?

World-renowned economist and recipient of the 1976 Nobel Memorial Prize in Economic Sciences, Milton Friedman, was an American economist and statistician best known for his strong belief in free-market capitalism. During his time as a professor at the University of Chicago, Friedman developed numerous free-market theories that opposed the views of traditional Keynesian economists. In his book "A Monetary History of the United States, 1867-1960," Friedman illustrated the role of monetary policy in creating and arguably worsening the Great Depression.



1.Permanent Income Hypothesis > Awarded the Nobel Prize-Winning

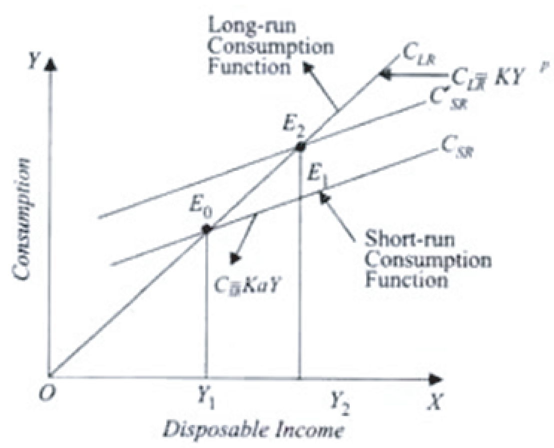
The permanent income hypothesis is a theory of consumer spending stating that people will spend money at a level consistent with their expected long-term average income.

- Level of expected long-term = Level of "Permanent" income that can be safely spent.
- Worker only SAVE > Current Income > Anticipated level of Permanent income
- In order to guard against future declines in income

Case Study:
When a worker is aware that he or she is likely to receive an income BONUS at the end of a particular pay period, it is plausible that said worker's spending in advance of that BONUS may change in anticipation of the additional earnings.
True/False Question:
Is it possible for workers choose to not increase their spending based solely on a short-term midfall? And make efforts to increase their savings, based on the expected boost in income instead?

2. "Inflation is always and everywhere a monetary phenomenon."

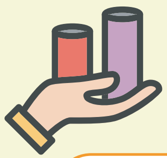
- In the long run, increased monetary growth increases prices but does not really affect output.
- Busted the classic Keynesian dichotomy on inflation which claimed prices rose from either "cost-push" or "demand-pull".

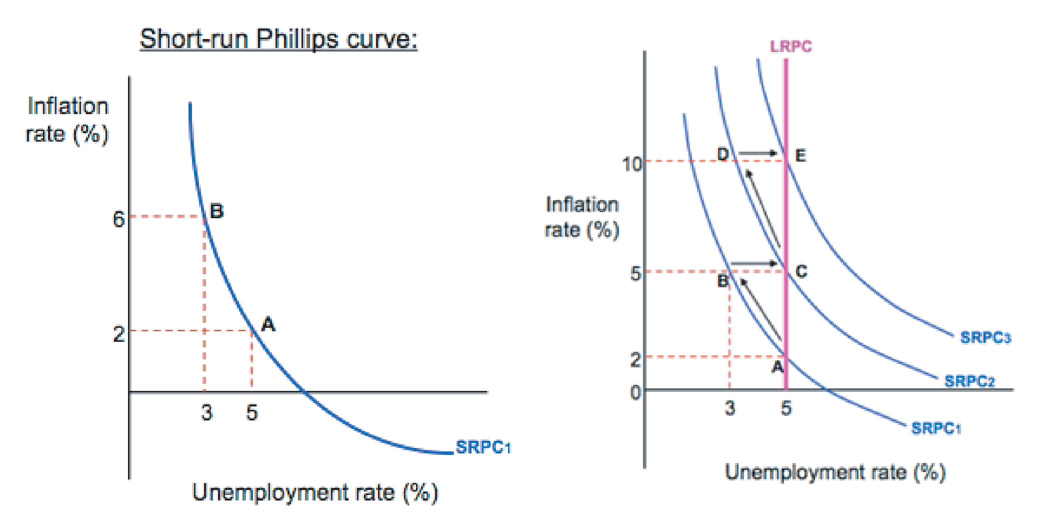


Short Question:
Explain the concept of Inflation in one sentence. Hint: **Constant Rise**

3. Natural Rate of Unemployment

Milton Friedman's expectations-augmented Phillips Curve denies the existence of any long-run trade-off between inflation and unemployment. Free markets operated better on grounds of morality and efficiency.





Friedman thus concludes that the long-run Phillips Curve (LRPC) is vertical (at the natural rate of unemployment), and the following propositions emerge:

- At the natural rate of unemployment, the rate of inflation will be constant (but not necessarily zero).
- The rate of unemployment can only be maintained below its natural rate at the cost of accelerating inflation. (Reflation is doomed to failure).
- Reduction in the rate of inflation requires deflation in the economy – i.e. unemployment must rise (in the short term at least) above its natural rate.

Fill-in the Blank Question:
Inflation and Unemployment have a __________ (Direct/Inverse) relationship. When the economic growth comes with inflation, which in turn should lead to _____ (More/Less) jobs and _______ (More/ Less) unemployment.

4. Milton Friedman on Corporate Social Responsibility (CSR)

CSR is a self-regulating business model that helps a accompany be socially accountable – to itself, its stakeholders, and the public. To engage in CSR means that, in the normal course of business, a company is operating in ways that enhance society and the environment, instead of contributing negatively to them.

- "There is one and only one social responsibility of business to use its resources and engage in activities designed to increase its profits so long as it stays in the rules of the game, which is to say, engages in open and free competition, without deception or fraud."
- Friedman argued for a direct form of Capitalism and against any activity that distorts economic freedom.
- Friedman thus argues that corporations should focus on those activities that are causally related to company profit, effectively excluding charitable activities that do not directly generate revenue
- There has been the claim that business should contribute to support charitable activities and especially to universities. Such giving by corporations is an inappropriate use of corporate funds in a free-enterprise society
- Your money on yourself—spent wisely;
- Your money on others—spend wisely but challenging;
- People's money on yourself—little incentive to economise;
- People's money on other people— the role of government and Corporate Social Responsibility programmes.