Velocity of Money Formula

Velocity of money can be defined as the speed at which money flows or is exchanged in an economy. In other words, it can be said that it is the speed at which money is spent in an economy for the purpose of buying goods and services.

It is also referred to as the turnover in money supply. When an individual earns more money, he is more confident in purchasing goods, that results in increasing the money velocity.

Velocity of money indicates the state of an economy, for example a high velocity of money indicates that money is moving fast in an economy towards the purchase of goods and services.

This leads to high demand and therefore the production will be increased. While in a low velocity of money state, very less people will be buying things or availing fewer services.

The money is not moving as expected, which reduces demand and as a result production will be reduced.

Higher money velocity can also cause inflation while a lower velocity results in decreasing inflation.

Economists are of the view that high velocity of money is indicative of a healthy economy while a low velocity of money signifies recessions.

The velocity of money formula can be expressed as follows:

$V = PQ / M$

Where,

V = Velocity of Money

PQ = Represents the GDP (Nominal Gross Domestic Product)

M= Money Supply