

Notes — Week 9

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Period 3

1. Impact of Monetary Policy

- Interest rates matter
- The Money Market
 - Transaction Demand: NOT a function of interest rates, but a function of economic activity (*i.e. money as a medium of exchange*)
 - Asset Demand: Money as a store of value. The opportunity cost of holding money is the interest rate you could be earning. Erosion due to inflation is another cost
- The Money Market Model
- Nominal Interest Rate vs. Quantity of Money — The graph is downward-sloping
- The nominal interest rate i is the Federal Funds rate
- Only the Fed can shift the supply of money
- Shifters of transaction demand
 - Changes in GDP
 - Changes in price level
 - Changes in technology