Notes — Week 9

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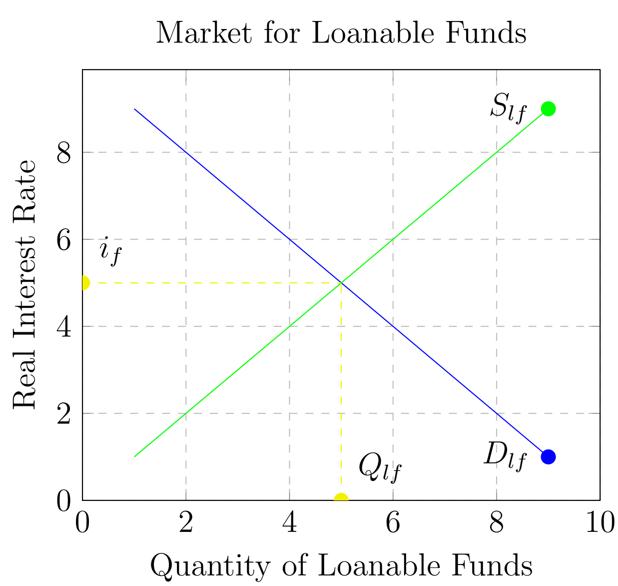
Period 3

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

2. Loanable Funds — All money available for lending and borrowing

3. Uses for loanable funds (demand):

   - Business investment
   - Government budget deficit
   - International investment or lending

4. What can shift the demand curve?

   - Changes in expected profit from new capital
     - Business cycle expansions
     - Swings of optimism and pessimism
   - Investment incentives
   - Government budget deficits

5. What can shift the supply curve?

   - Savings incentives
     - Taxes on interest
   - Expansionary monetary policy[1]
   - Capital inflows

[1] May shift supply, but not always