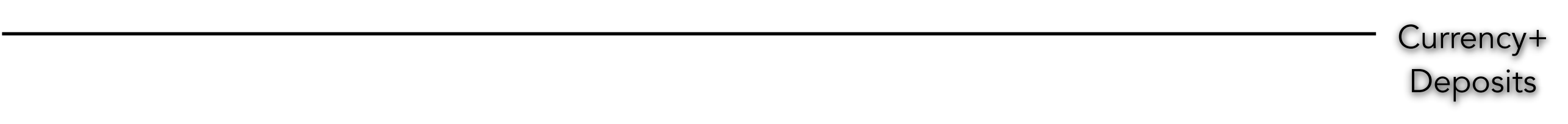


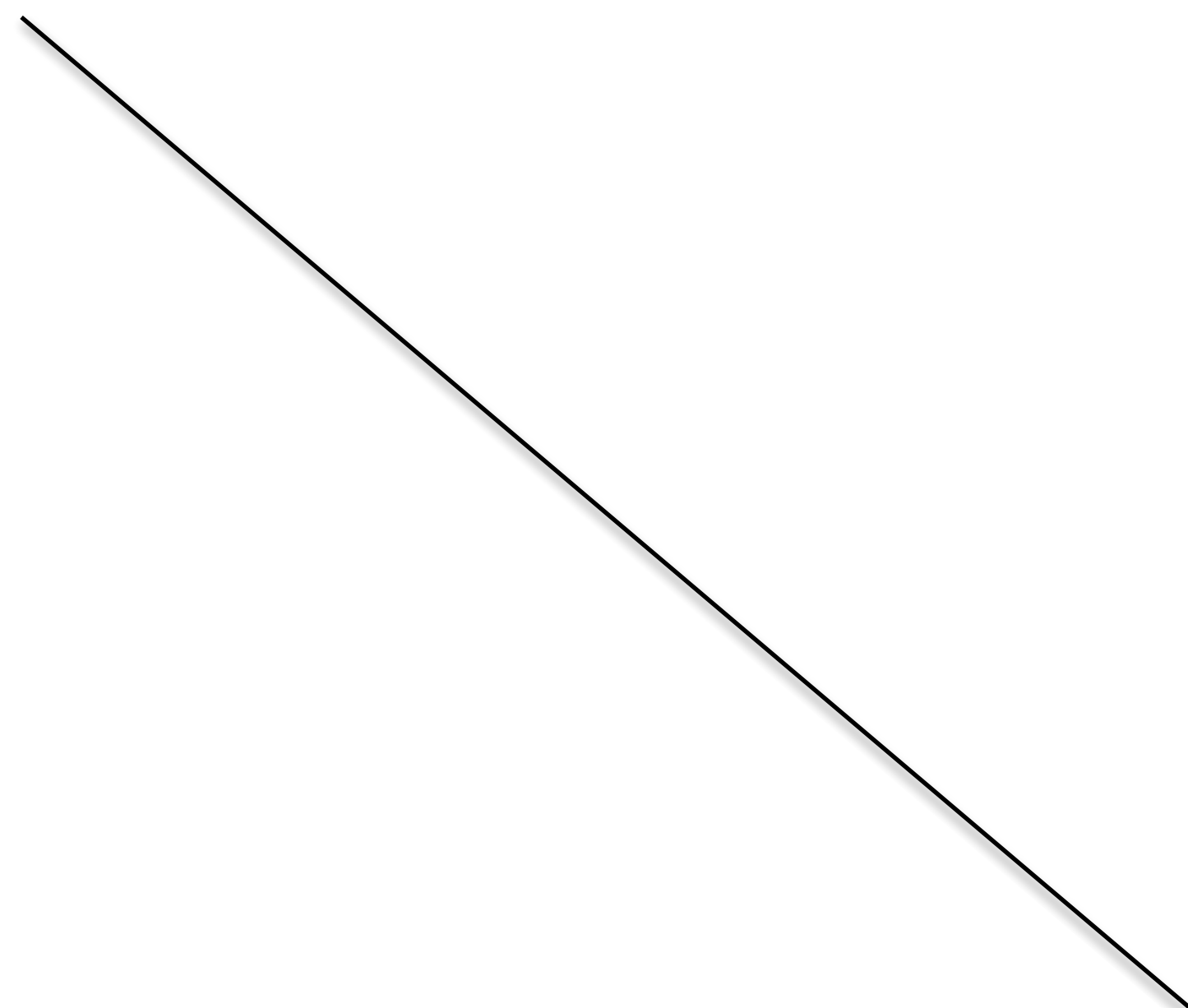


# Equilibrium in the Money Market



*i*



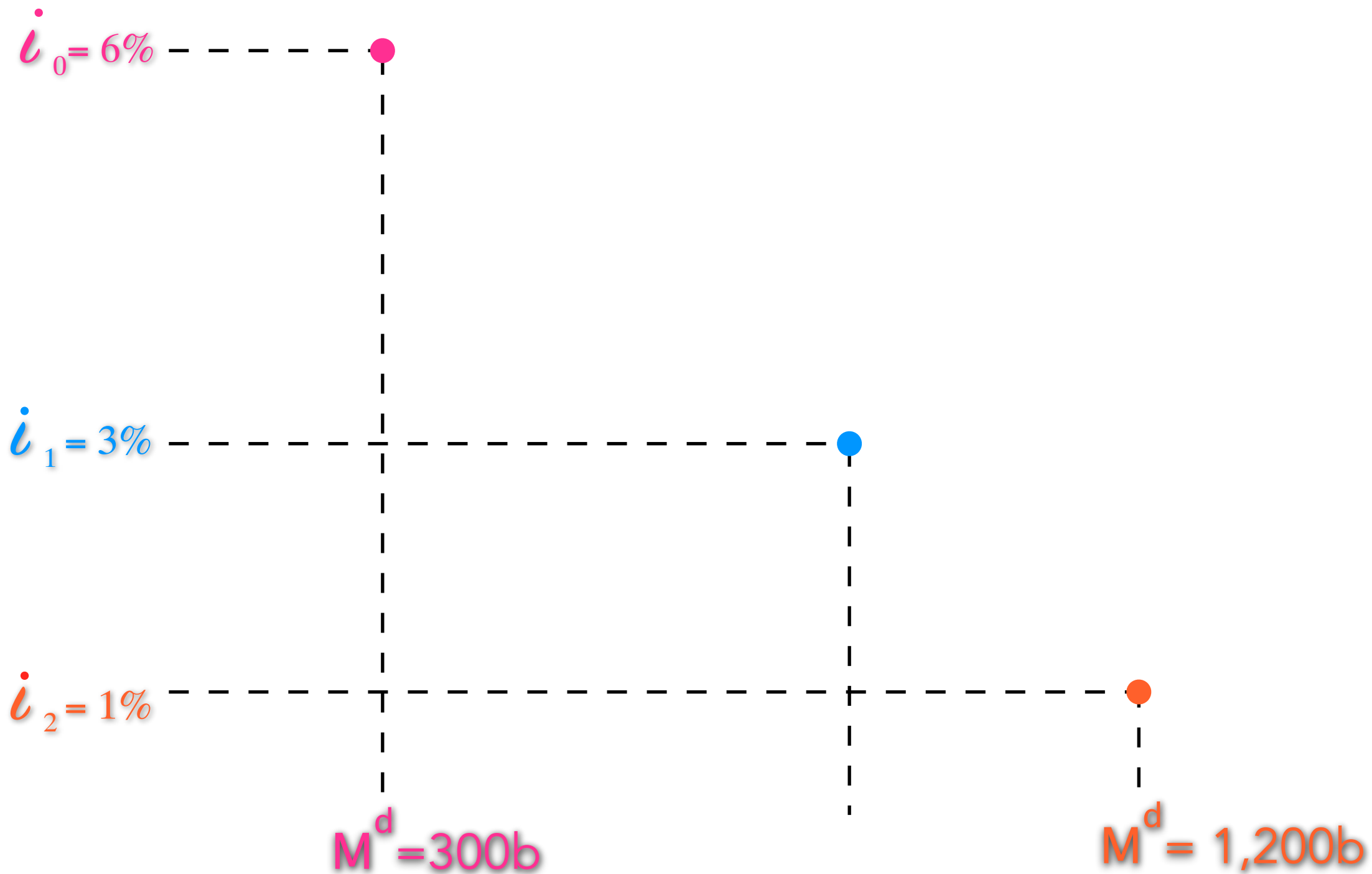


$$M^d(P_0, GDP_0)$$

$M^s$



$M^s = 900b$



If the interest rate is  
6%, the amount of  
currency + deposits  
the public **wants** to  
hold for transactions  
is 300b



But the public is  
actually holding

$$M^s = 900b$$

excess liquid balances




The public has **excess liquid balances**  
which they do not need for  
transactions, sitting idle (not earning  
interest) in cash and checking  
accounts



The public will look for a way to earn  
interest on these excess idle balances





The public will look for **borrowers**  
willing to pay interest on these funds

It will be difficult to find willing  
borrowers at 6% interest, because at  
6%, everyone wants to lend (excess  
liquid balances) money is plentiful



To find willing borrowers,  
lenders must drop the  
interest rate



W





















2

























U





b



2



3









































U



3

































U









































a











a



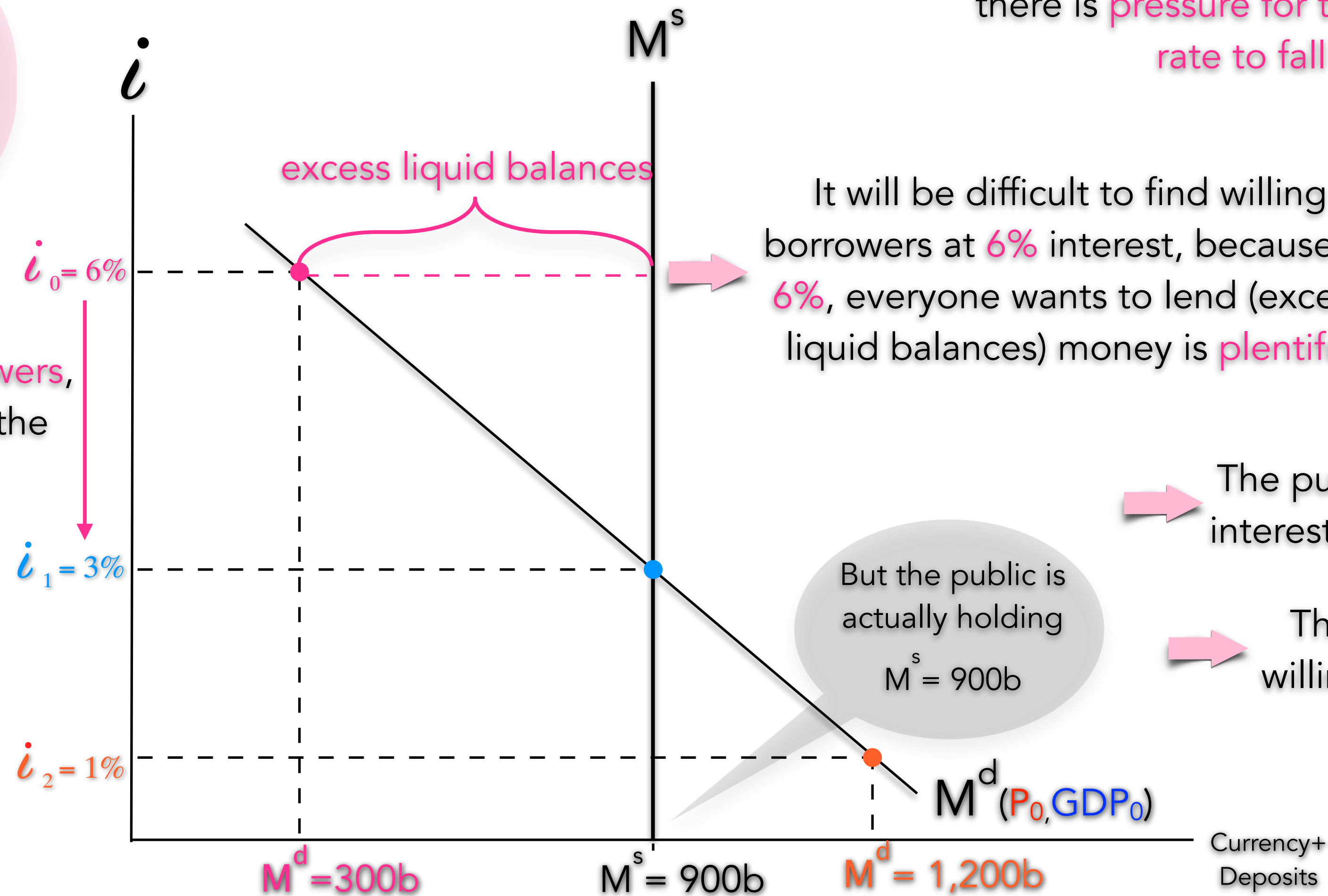




# Equilibrium in the Money Market

If the interest rate is 6%, the amount of currency + deposits the public **wants** to hold for transactions is 300b

To find willing **borrowers**, lenders must **drop** the interest rate



When there are excess liquid balances, **money is plentiful** and there is **pressure for the interest rate to fall**

It will be difficult to find willing borrowers at 6% interest, because at 6%, everyone wants to lend (excess liquid balances) money is **plentiful**

The public will look for a way to earn interest on these excess idle balances

The public will look for **borrowers** willing to pay interest on these funds

But the public is actually holding  $M^s = 900b$