

M_1^s



$M_1^s = 1,200b$

T





















2

Р

U







a

S







b







S

b

Y







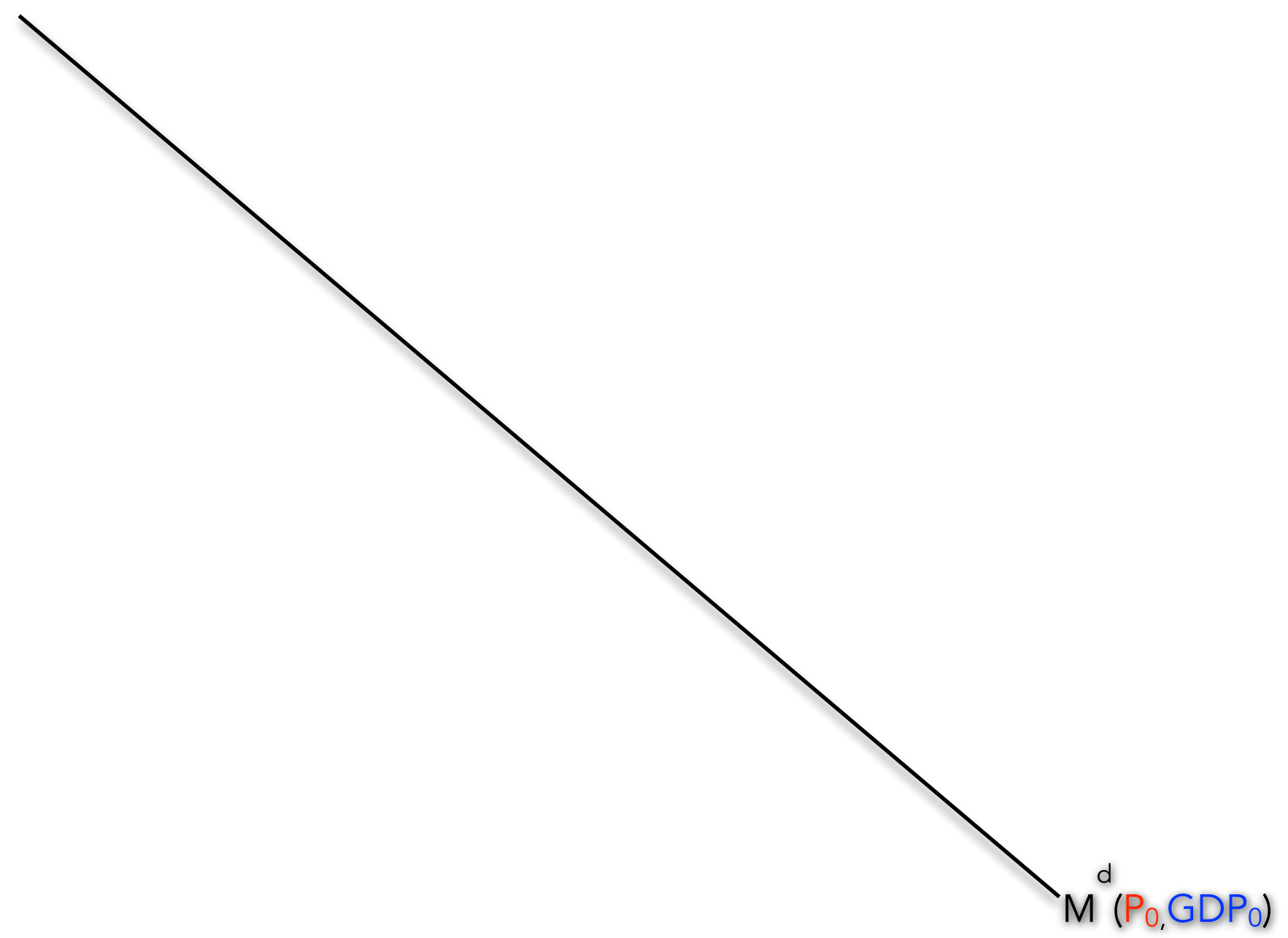
F





i





M_0^s



$M_0^s = 900b$

$i_0 = 6\%$



$i_1 = 3\%$



$i_2 = 1\%$



$M^d = 300b$

$M^d = 900b$

$M^d = 1,200b$

Assume the Money Market



starts at equilibrium

Feedbuys Bonds:

M^s shifts right

Reserves



Loans



Deposits



M^S



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



excess liquid balances



The interest rate will fall to



a new equilibrium at 1%



New
equilibrium

A pink speech bubble with a tail pointing towards the bottom right. Inside the bubble, the text "The Fed creates new reserves making money plentiful" is written in a black, sans-serif font, centered and arranged in four lines.

The Fed creates
new reserves
making money
plentiful

The effect of a purchase of bonds by the Fed

The effect of a **purchase** of bonds by the Fed

