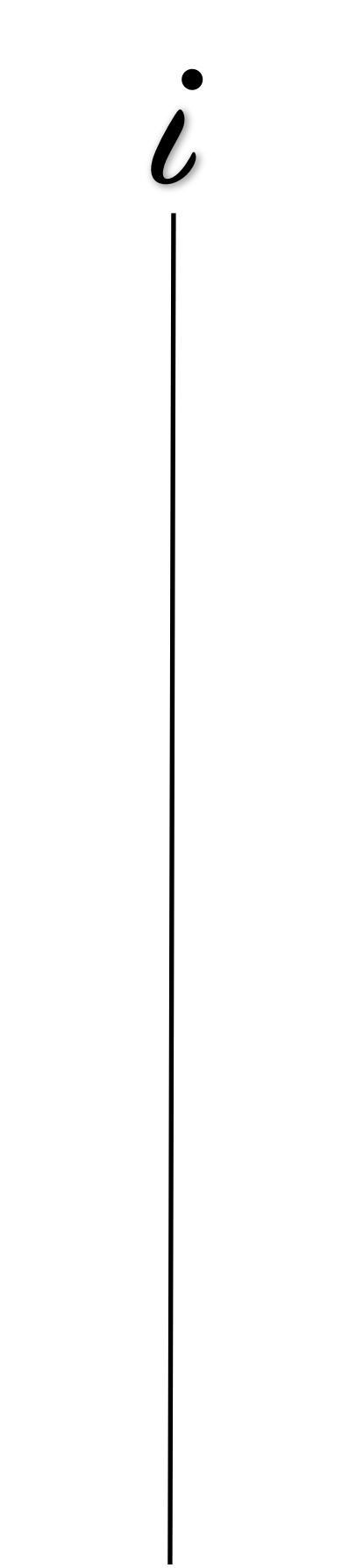
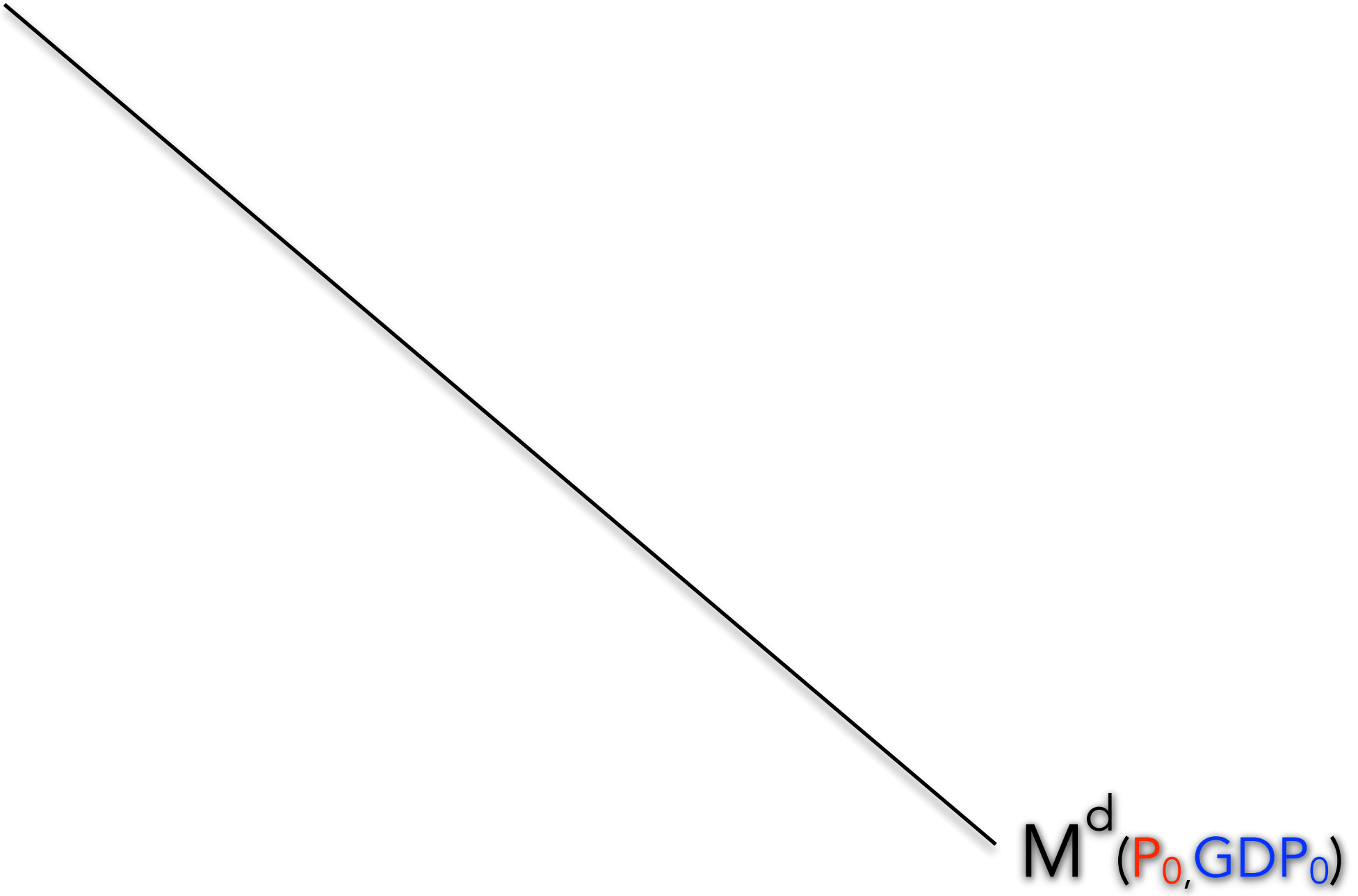
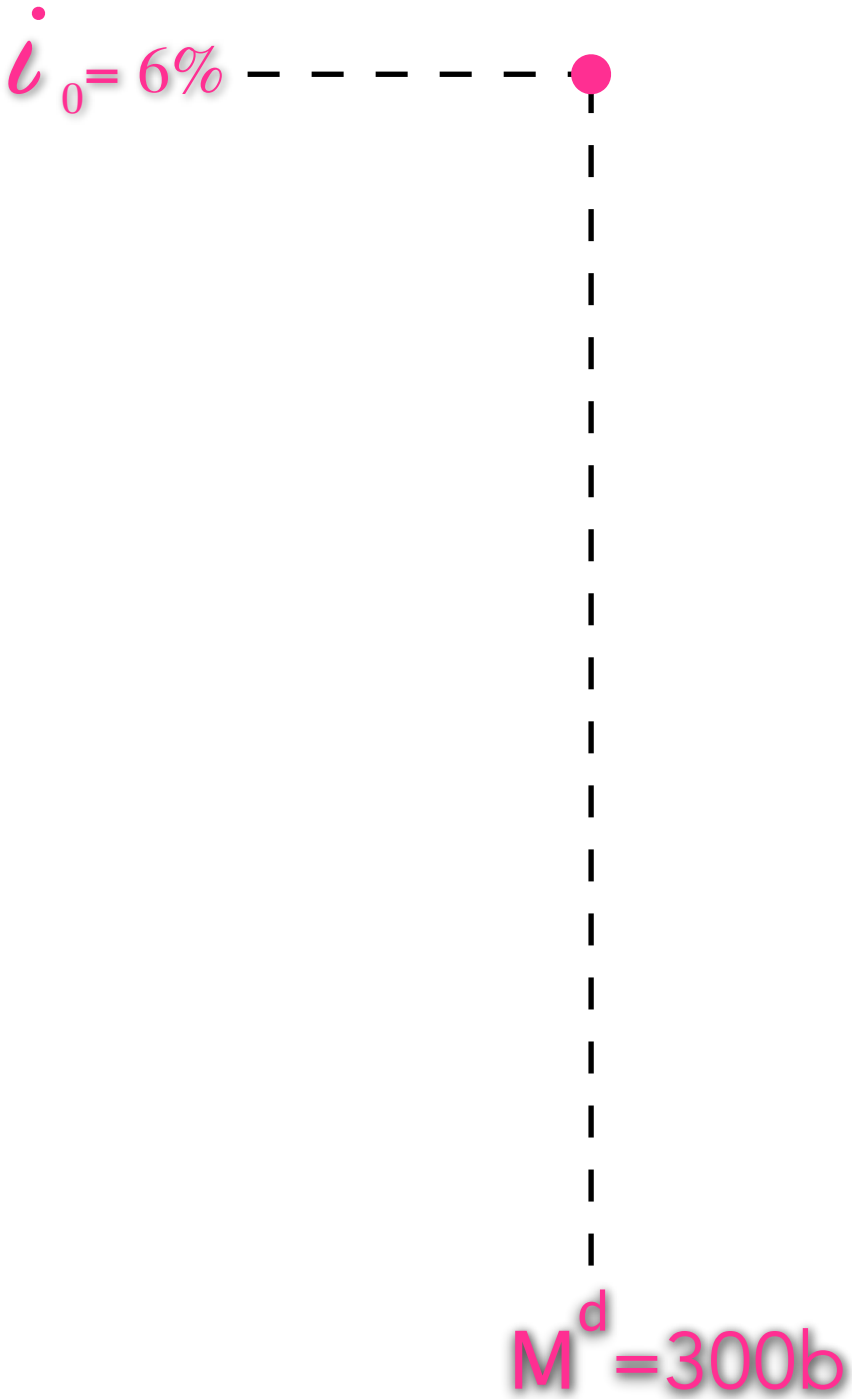
Currency+
Deposits




$M^d_{(P_0, GDP_0)}$


$i_0 = 6\%$
$M^d = 300b$

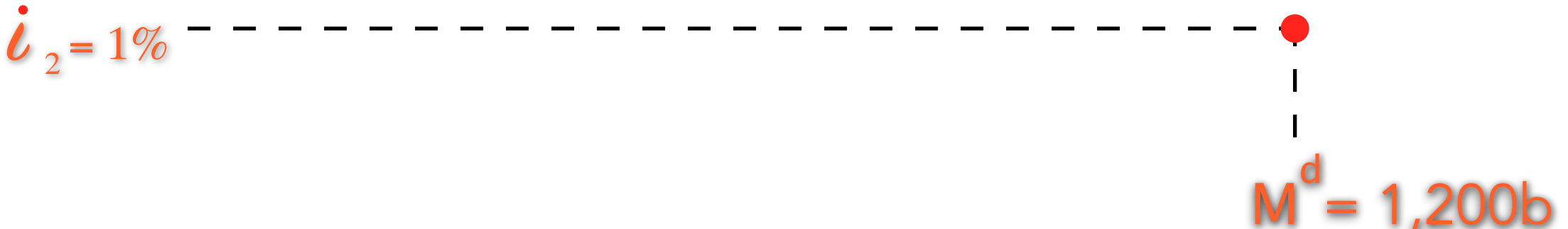

$i_1 = 3\%$
$M^d = 900b$

M^s is the amount of currency + deposits the public actually holds = 900b

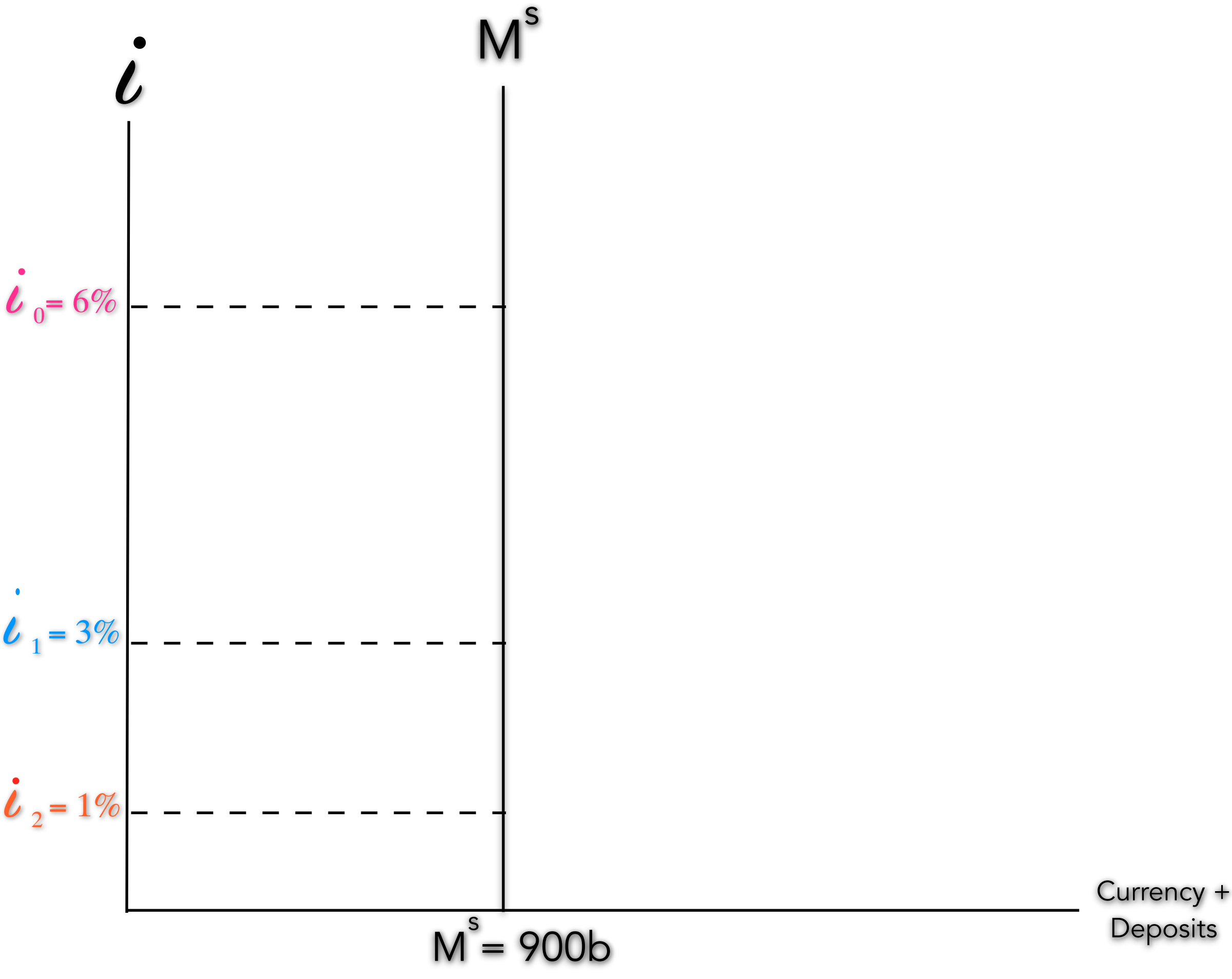
If the interest rate is 3%, the amount of currency + deposits the public **wants** to hold for transactions is 900b

An example

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


$i_2 = 1\%$
$M^d = 1{,}200b$

If the interest rate is 1%, the amount of currency + deposits the public **wants** to hold for transactions is 1,200b


M^s
i
$i_0 = 6\%$
$i_1 = 3\%$
$i_2 = 1\%$
$M^s = 900b$
Currency + Deposits

The Money *Supply*

The Money *Demand*

If the interest rate is 3% the public has exactly as much liquid
balances as they want for everyday transactions

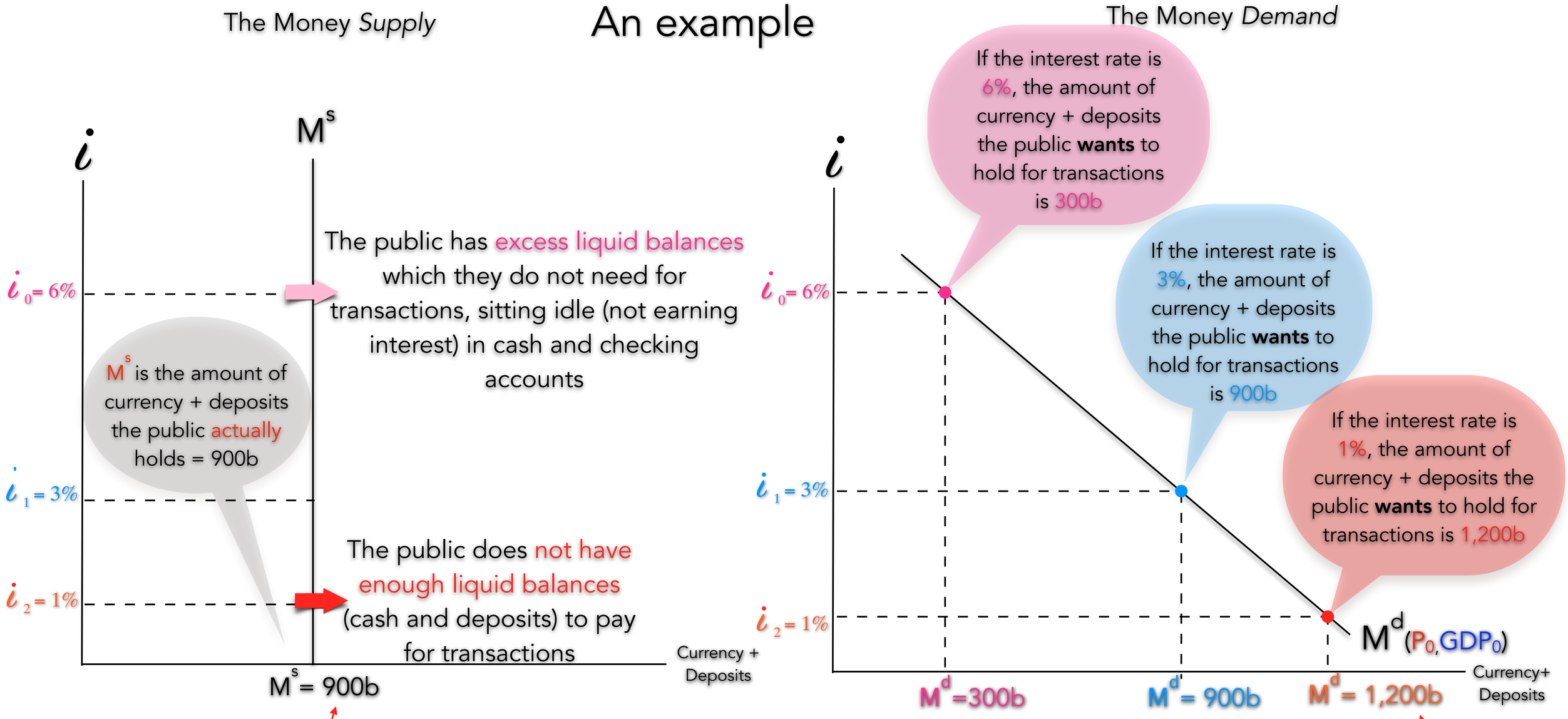
If the interest rate is 6% the public is holding (in cash and deposits) more liquid balances than they want for everyday transactions

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 does not have enough liquid balances (cash and deposits) to pay for transactions

If the interest rate is 1% the public is holding (in cash and deposits) less liquid balances than they want for everyday transactions

An example



If the interest rate is 1% the public is holding (in cash and deposits) less liquid balances than they want for everyday transactions