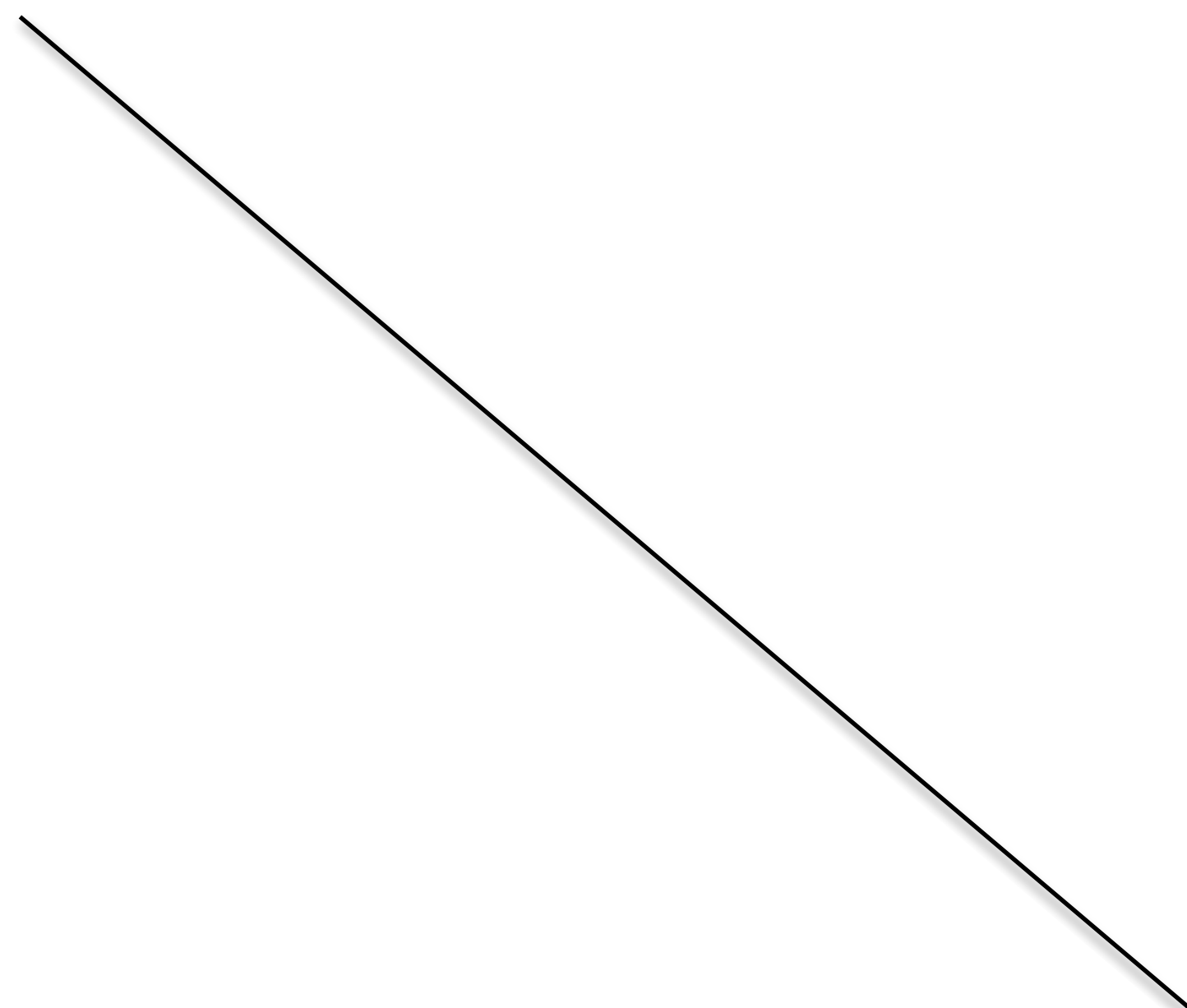


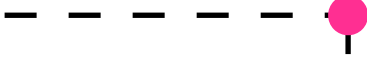
i






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

$i_0 = 6\%$



A horizontal dashed line with a pink dot at its right end.



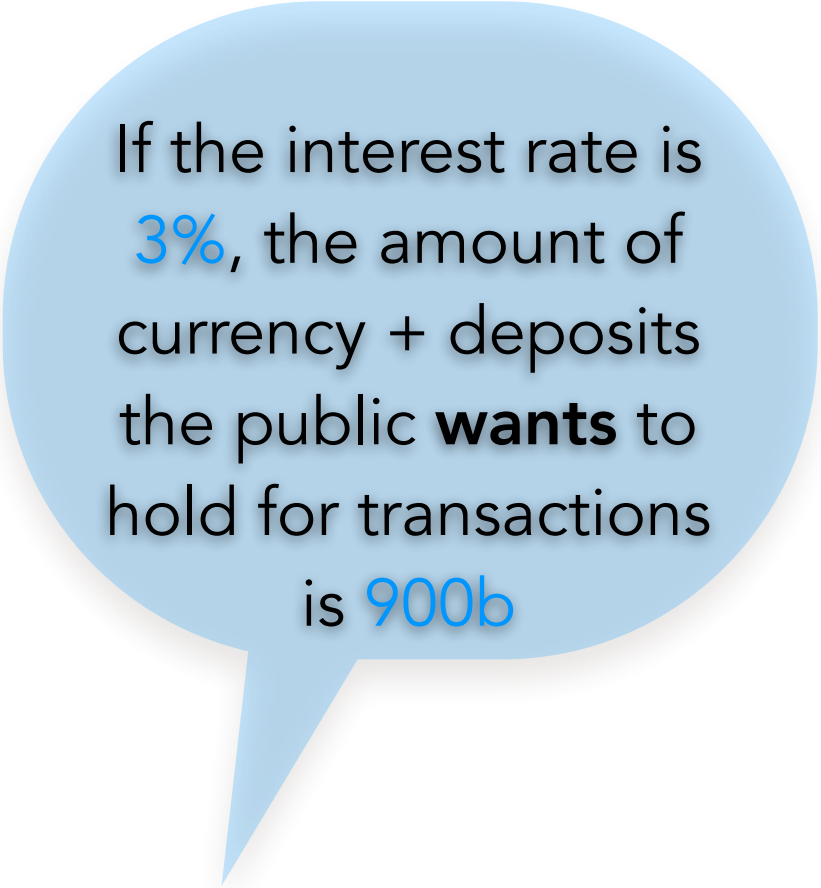
A vertical dashed line extending downwards from the pink dot.

$M^d = 300b$

$$i_1 = 3\%$$

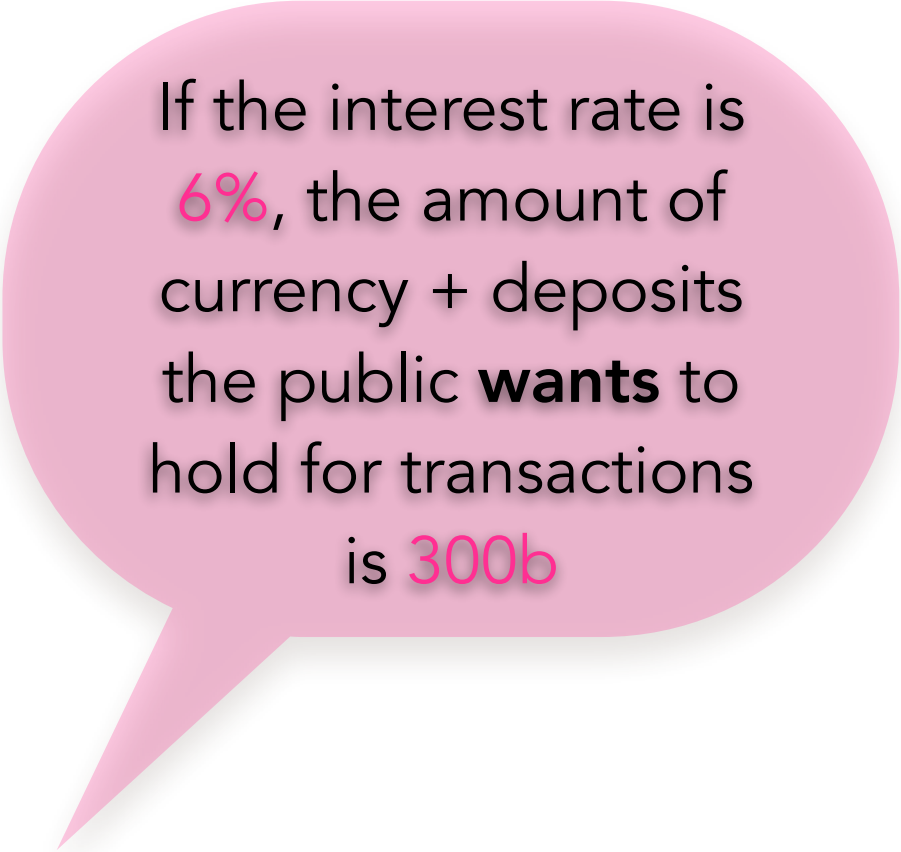
$$M^d = 900b$$

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

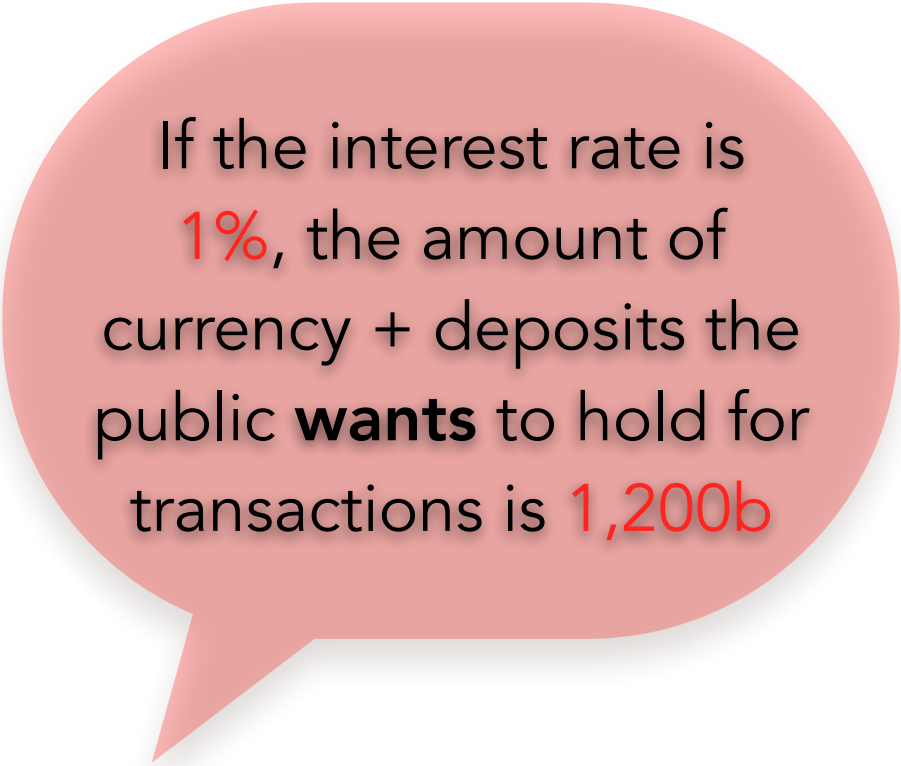
An example

A large, light pink speech bubble with a darker pink outline and a small tail pointing towards the bottom left. Inside the bubble, text is written in black and pink. The text reads: "If the interest rate is 6%, the amount of currency + deposits the public **wants** to hold for transactions is 300b".

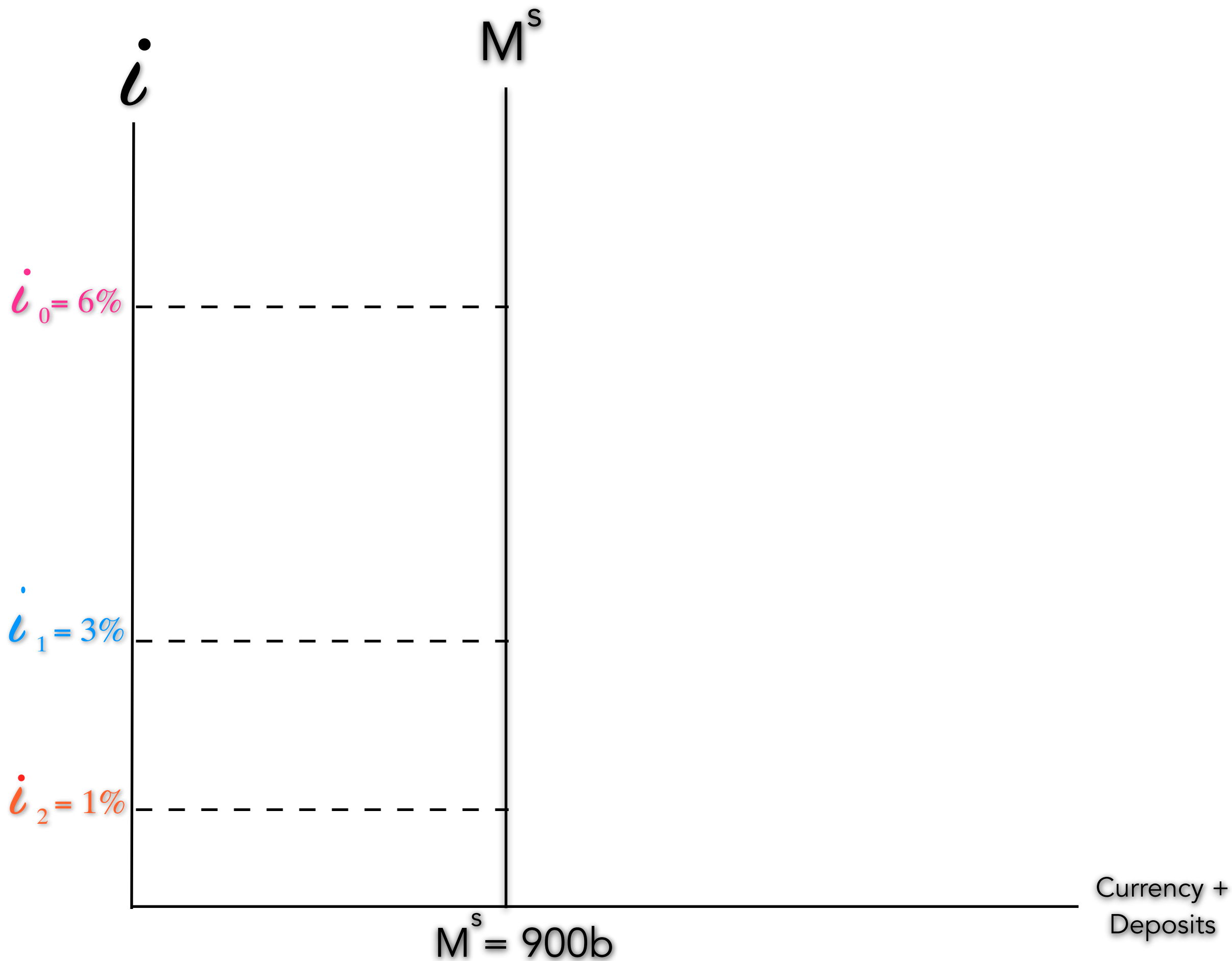
If the interest rate is
6%, the amount of
currency + deposits
the public **wants** to
hold for transactions
is 300b

$$i_2 = 1\%$$

$$M^d = 1,200b$$



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



The Money Supply

The Money Demand

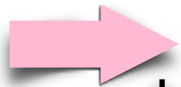



If the interest rate is 3% the public has **exactly as much liquid balances as they want** for everyday transactions



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

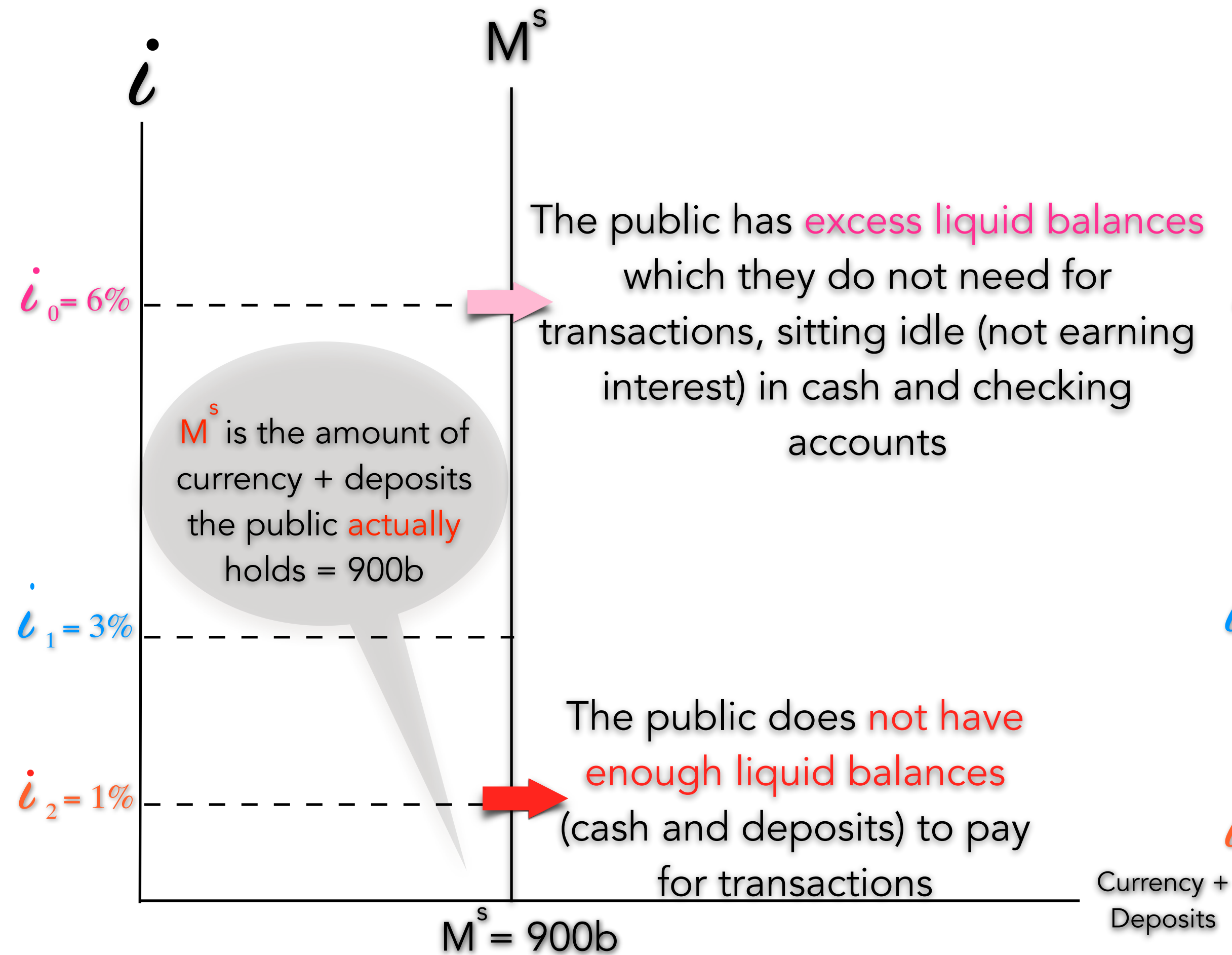


If the interest rate is 1% the public is holding (in cash and deposits) less liquid balances than they want for everyday transactions

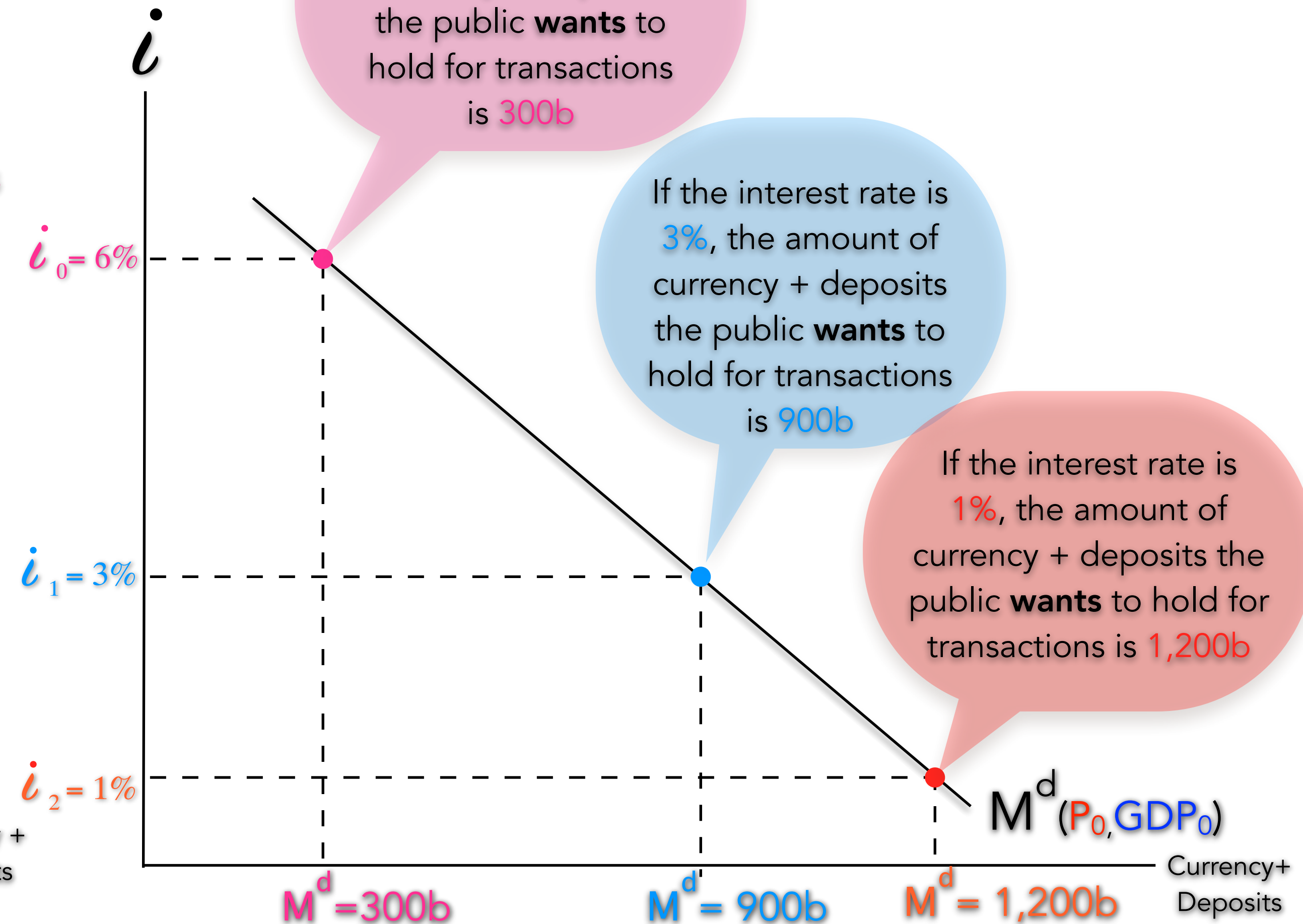
The Money Supply

An example

The Money Demand



Currency +
Deposits



Currency+
Deposits

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