



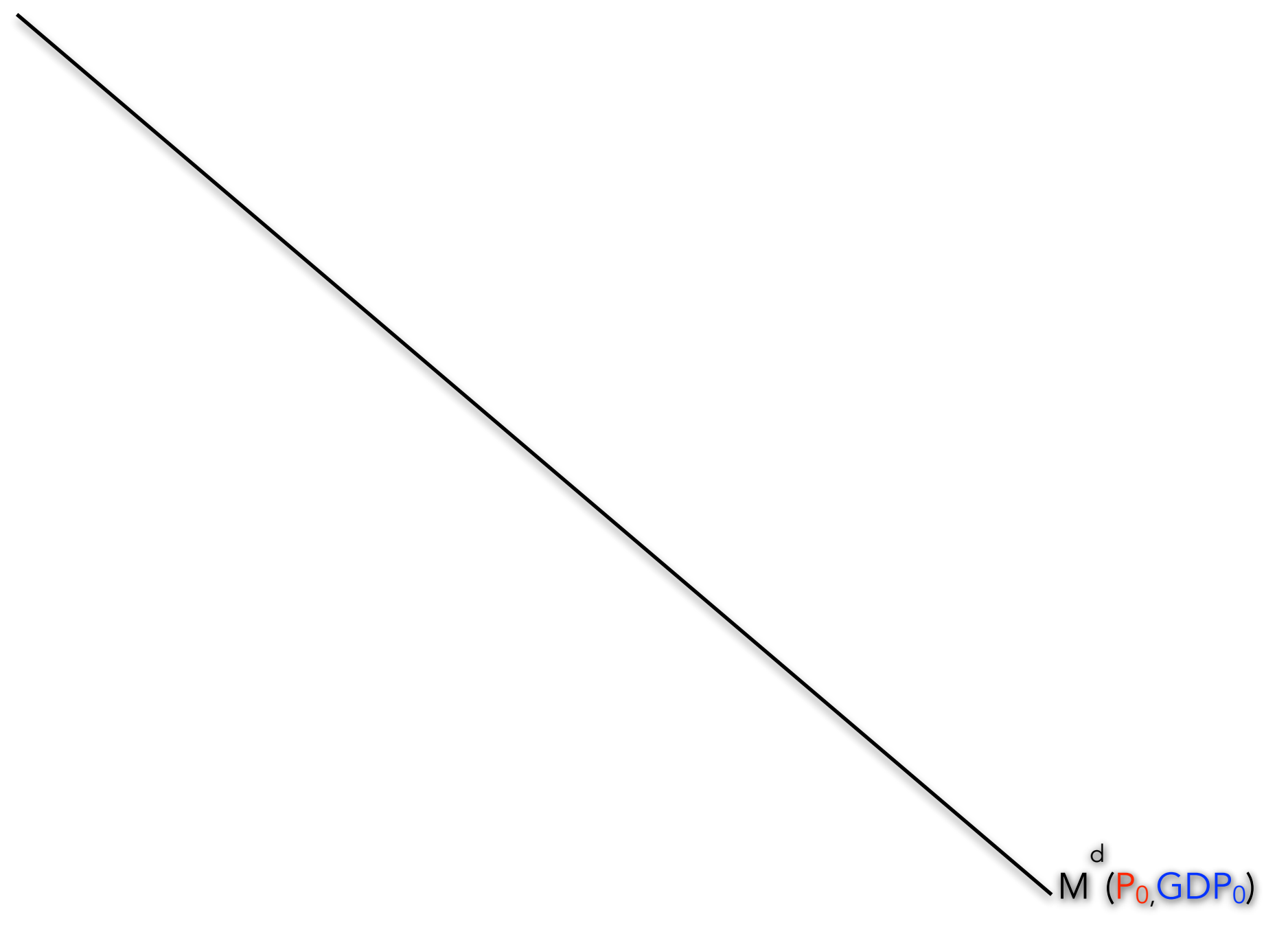
Equilibrium in the Money Market

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Currency+  
Deposits

*i*

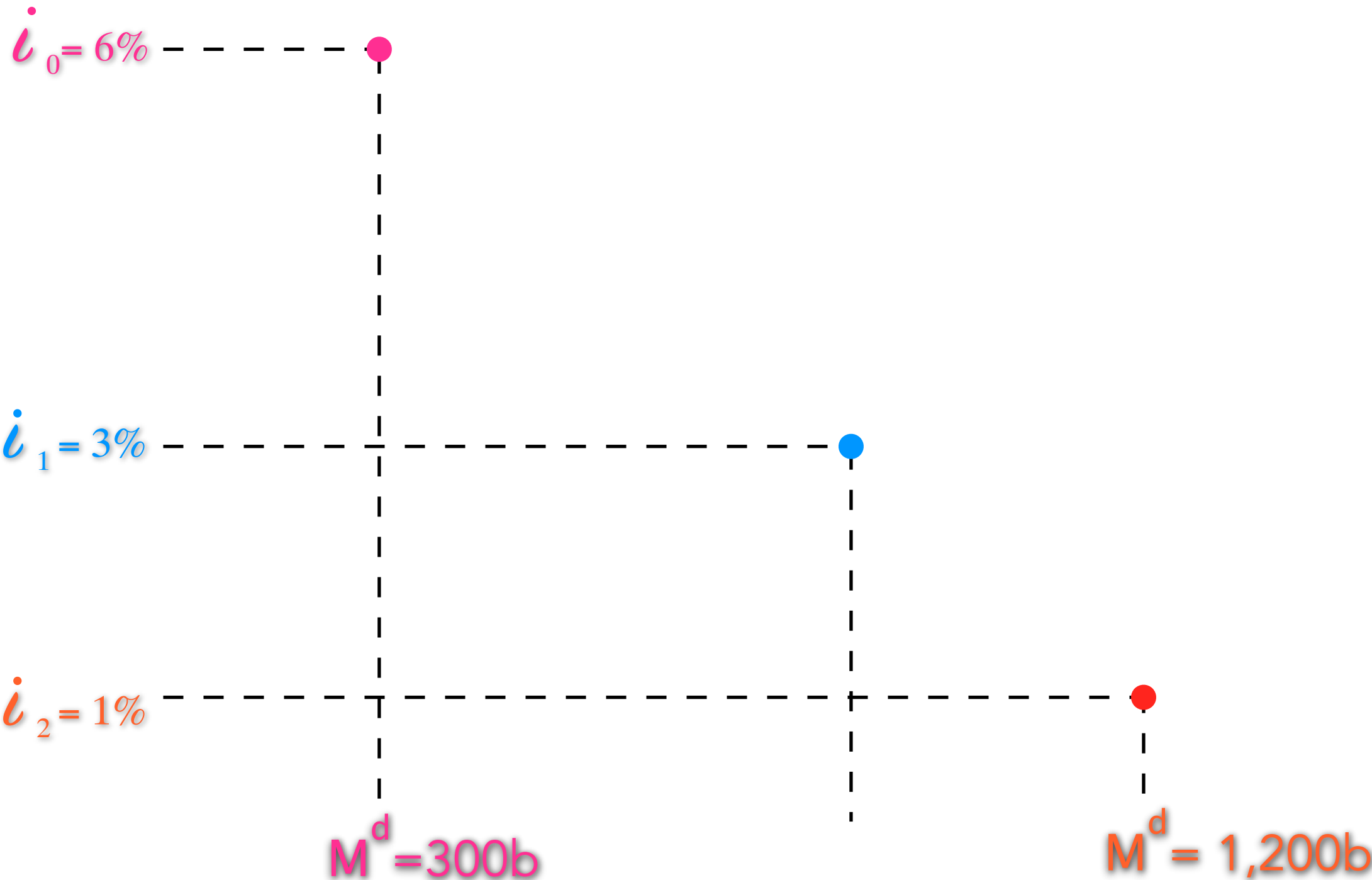




$M^S$



$M^S = 900b$



But the public is  
actually holding

$$M^s = 900b$$



# Short of liquid balances





The public will look for a way to get  
liquid balances (cash and deposits)



The public will look for willing lenders  
to get the necessary funds

To find willing lenders,  
borrowers must offer a  
higher interest rate



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

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

It will be difficult to find willing  
lenders at 1% interest, because at 1%,  
everyone wants to borrow (short of  
liquid balances) money is scarce



W





















2





S











2



















U







2





































a









6

































U







































a













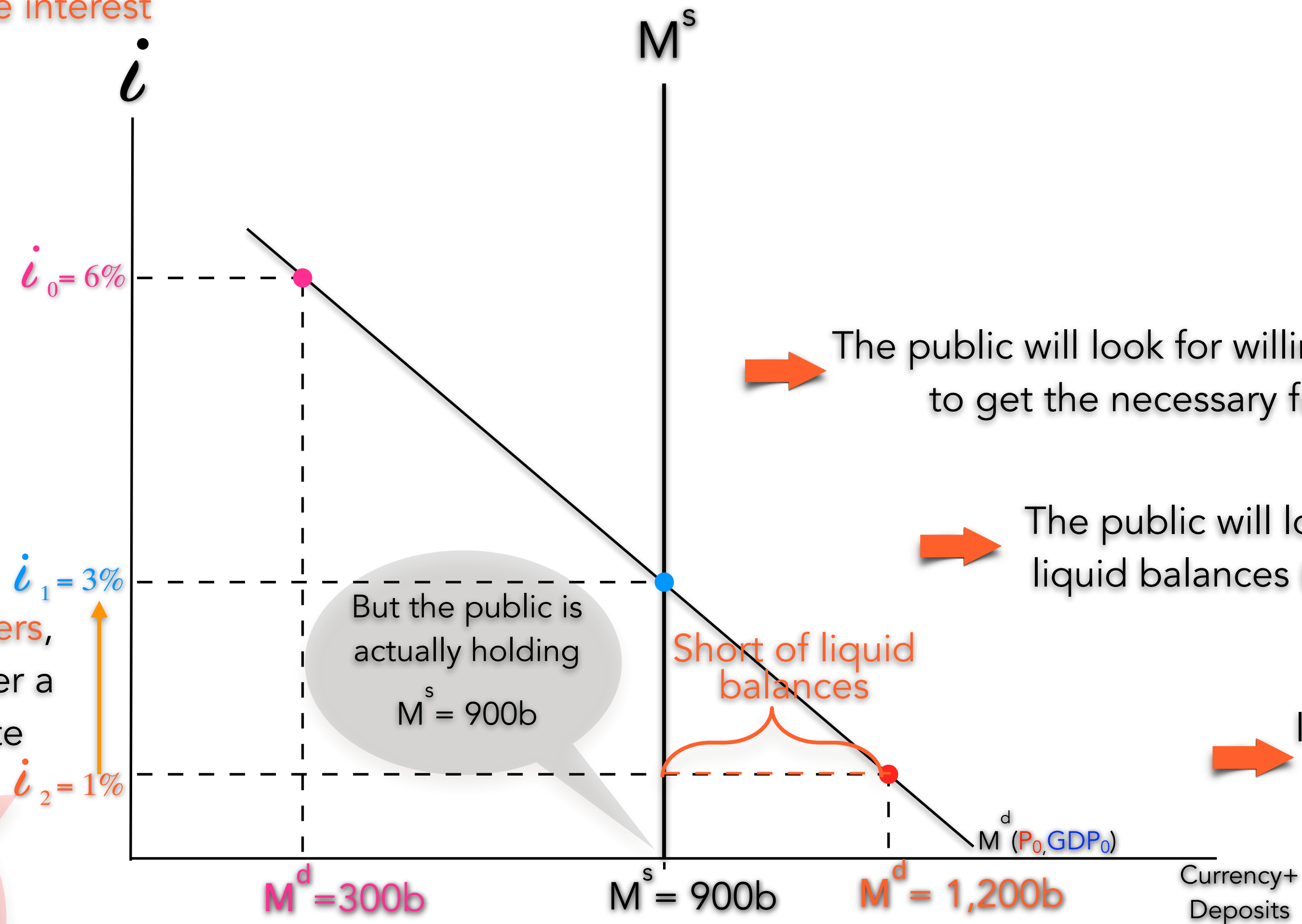


A large, stylized orange letter 'S' is centered on a light gray background. The letter has a thick, slightly irregular stroke, giving it a hand-drawn or brush-painted appearance. The background is a solid, light gray color.



# Equilibrium in the Money Market

When there are shortages of liquid balances, **money is scarce** and there is **pressure for the interest rate to rise**



→ The public will look for willing **lenders** to get the necessary funds

→ The public will look for a way to get liquid balances (cash and deposits)

→ It will be difficult to find willing lenders at **1%** interest, because at **1%**, everyone wants to borrow (short of liquid balances) **money is scarce**

To find willing **lenders**, borrowers must offer a **higher** interest rate

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

# Equilibrium in the Money Market