Currency + Deposits

Fed buys Bonds:

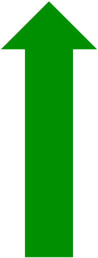
l

M^s shifts right

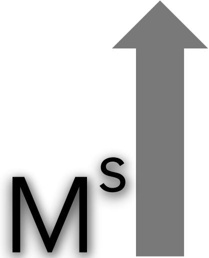
Money Supply M^s = Deposits + Currency

Reserves

Loans



Deposits


M^s

Interest Rate to the Public

The Money Market

$$M^s = 900$$

$$M^s = 1000$$

A market is any situation in which buyers and sellers come together to bargain for a price

In the Money market, lenders and borrowers come together to bargain over the interest rate

$$M_0^s$$

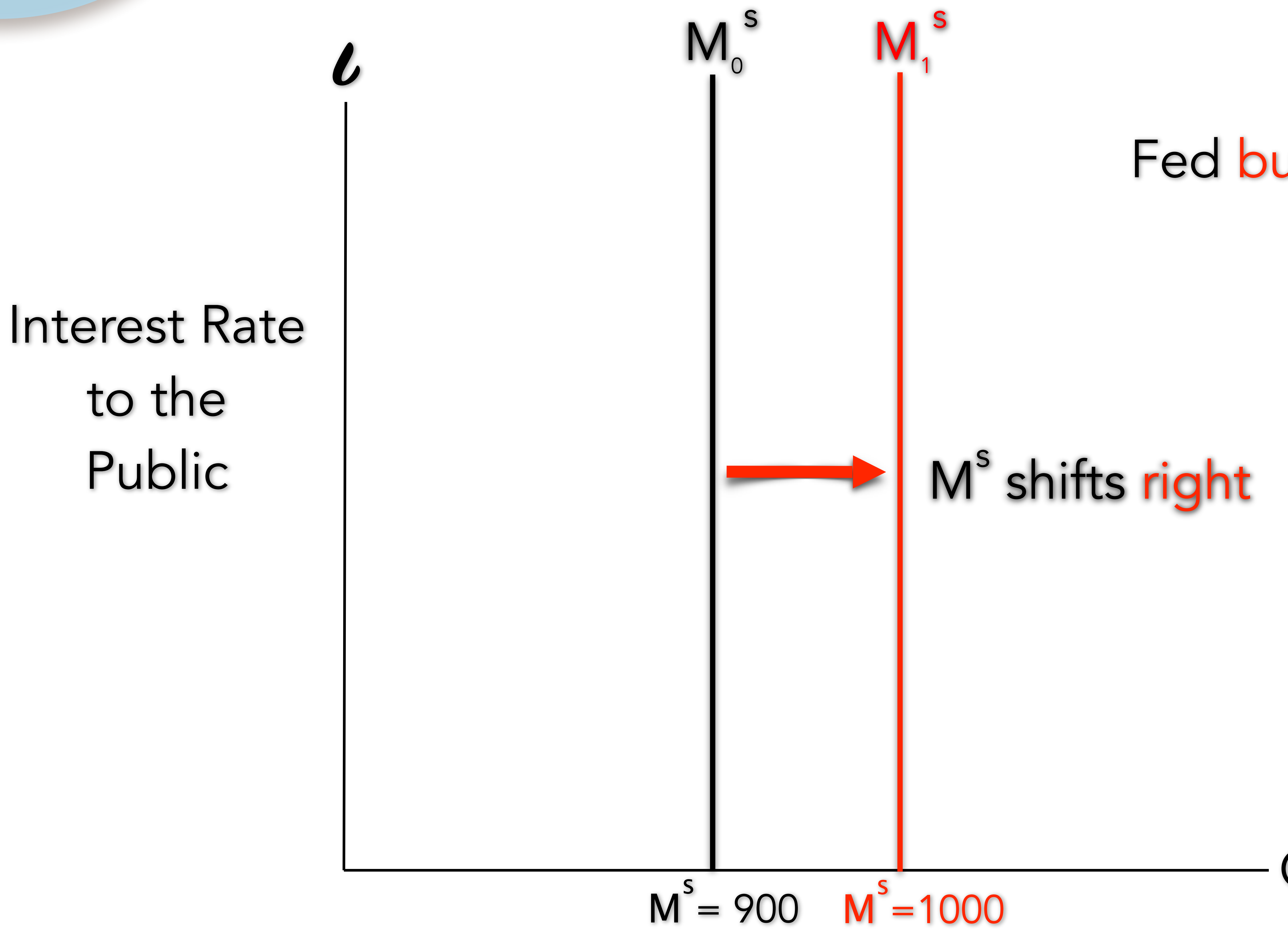
$$M_1^s$$

The Money Market

A market is any situation in which buyers and sellers come together to bargain for a price

Money Supply M^s= Deposits + Currency

In the Money market, lenders and borrowers come together to bargain over the interest rate



Fed buys Bonds:

Assets	Liabilities
 Assume the Fed is presently holding 100b in Bonds	**Bank Reserves** R_A=0.1 x 250 = 25b R_B=0.1 x 100 = 10b R_C=0.1 x 150 = 15b R_D=0.1 x 300 = 30b R_E=0.1 x 200 = 20b Total Reserves = 100b

Bank A

Bank A has Deposits 250

Bank B

Bank B has Deposits 100

Bank C

Bank C has Deposits 150

Bank D

Bank D has Deposits 300

Bank E

Bank E has Deposits 200