



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

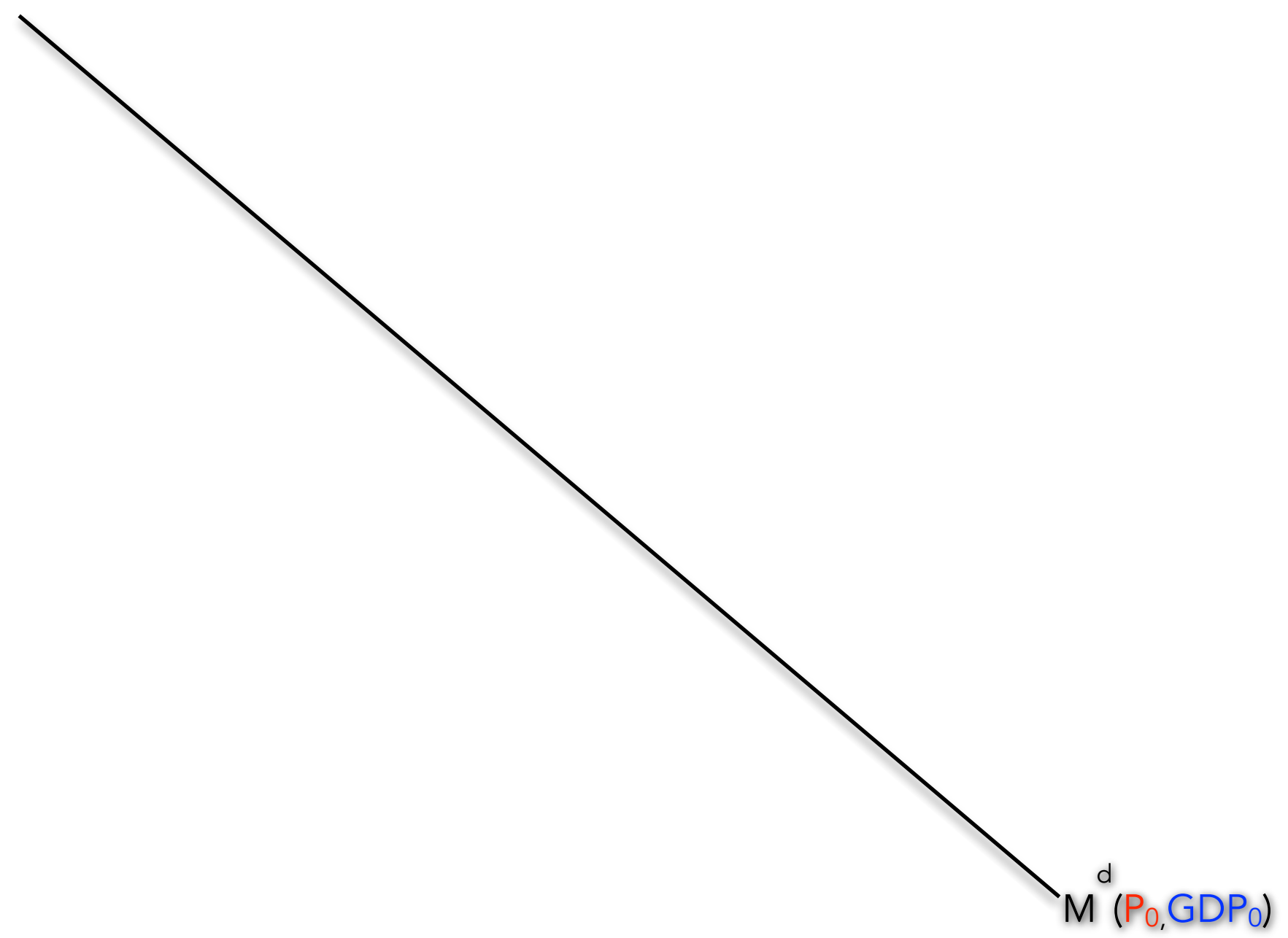


Equilibrium in the Money Market



*i*

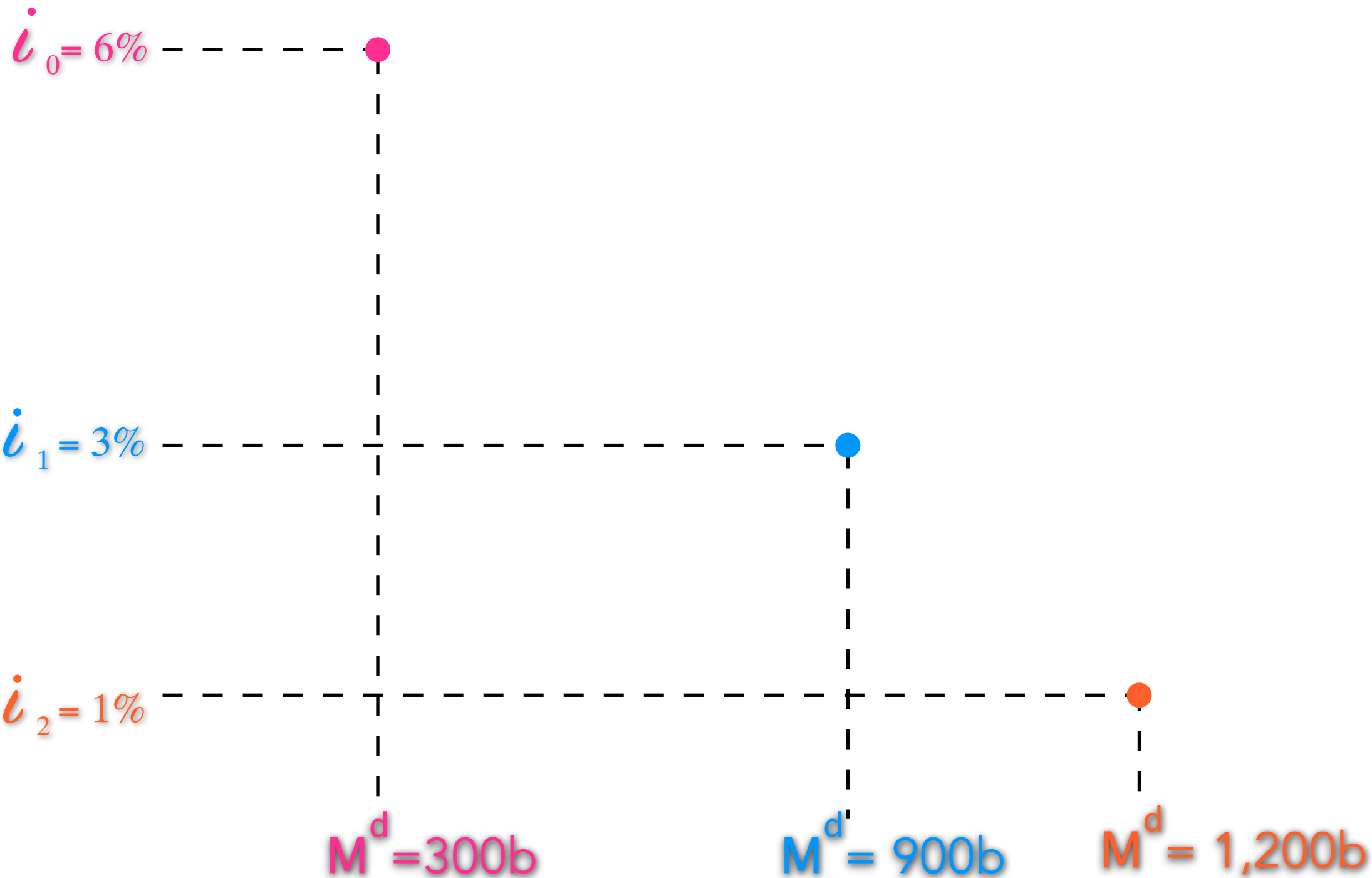




$M^s$



$M^s = 900b$





If the interest rate is 3%,  
the amount of currency +  
deposits the public is  
actually holding is exactly  
what the public wants to  
hold for transactions

The public will not need to look for lenders



or borrowers and thus there will be no  
reason for the interest rate to change

W



































3



























U















U











W















2















3





3













S

W











W











V

























S





















U







b







U



We can safely assume that the Money



Market will eventually settle at

equilibrium

The Money Market is in  
equilibrium at a 3%  
interest rate

$$i_e = 3\%$$

If the interest rate is below  
equilibrium, there are shortages of  
liquid balances, money is scarce  
and there is pressure for the  
interest rate to rise



Whether money is scarce or plentiful, the public will engage in transactions which will move the interest rate to equilibrium



# Equilibrium in the Money Market

Whether money is scarce or plentiful, the public will engage in transactions which will move the interest rate to **equilibrium**

We can safely assume that the Money Market will eventually settle at **equilibrium**

If the interest rate is **above** equilibrium, there are excess liquid balances, **money is plentiful** and there is **pressure for the interest rate to fall**

The Money Market is in **equilibrium** at a **3%** interest rate

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

