





Currency + Deposits

Feedbuys Bonds:



M^s shifts right







Money Supply M^s = Deposits + Currency

Reserves



Loans



Deposits



M^S

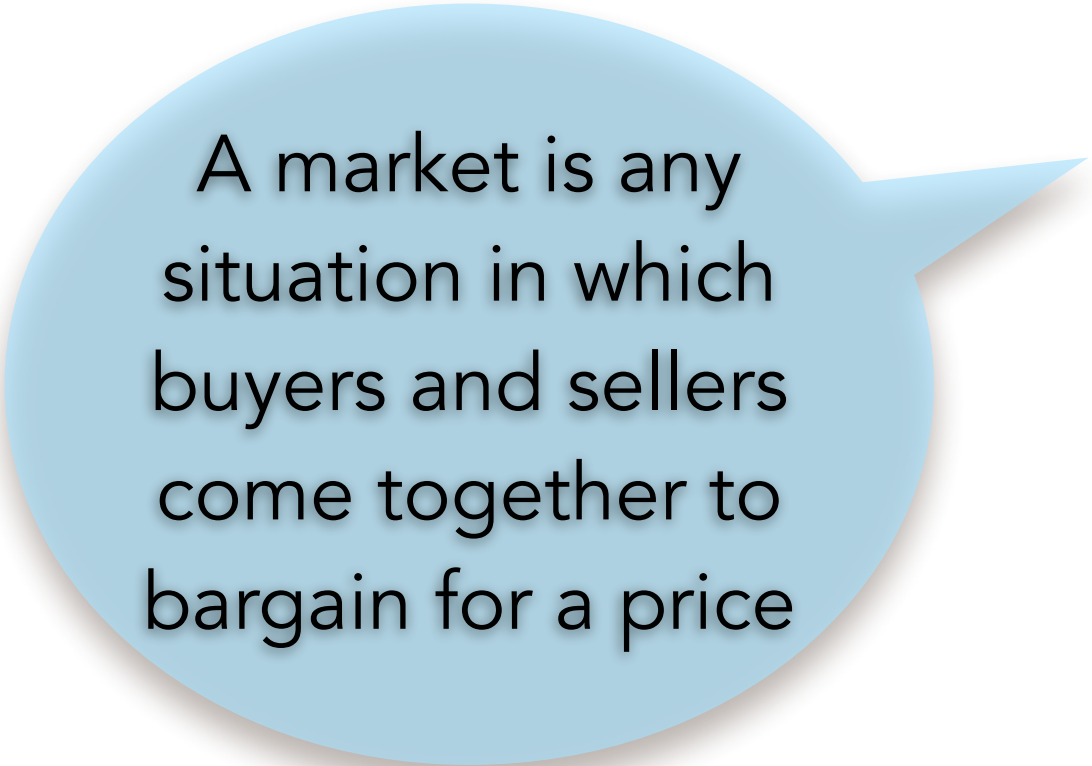


Interest Rate
to the
Public

The Money Market

$$M^S = 9000$$

$M^S = 10000$



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

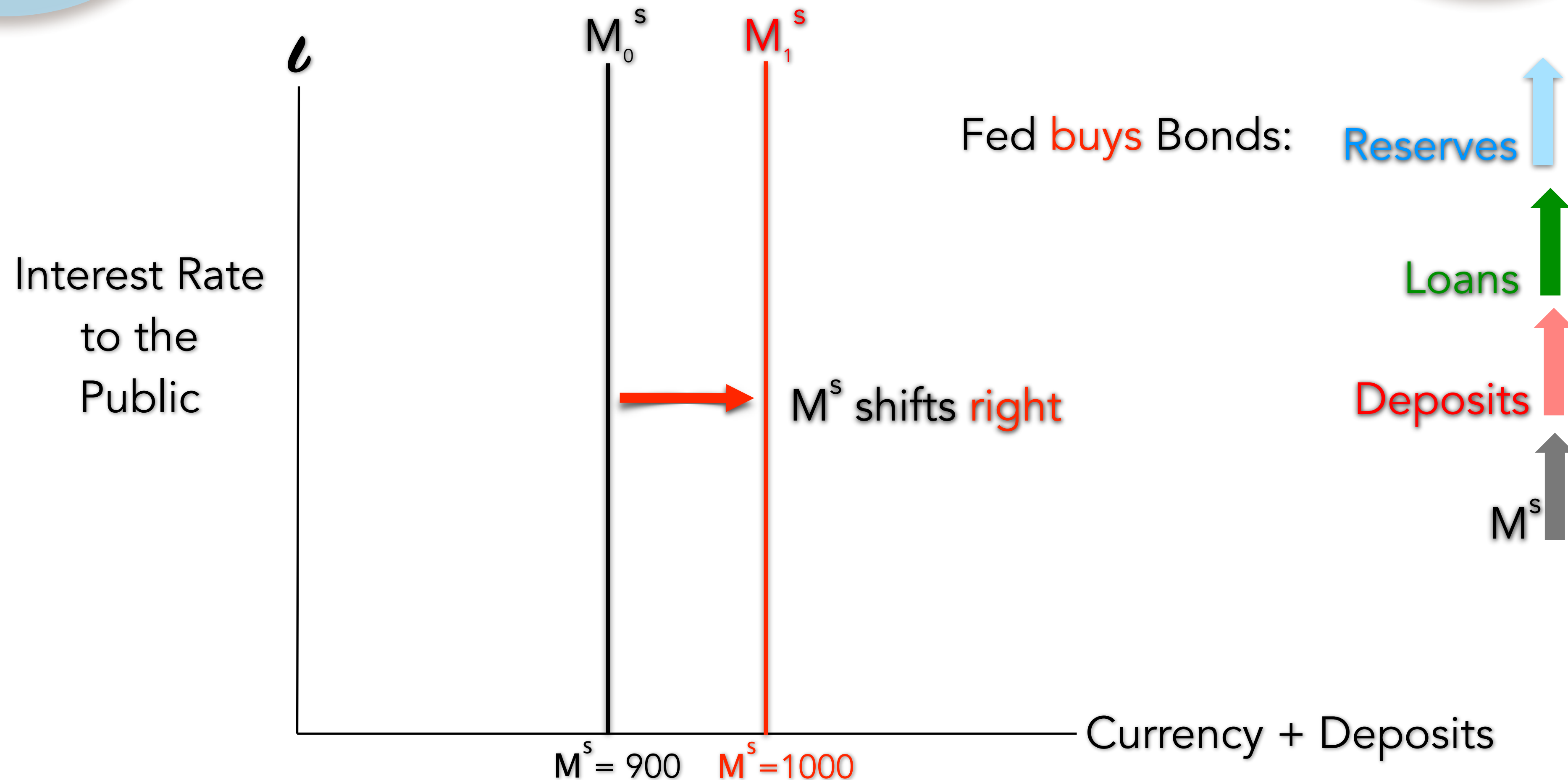
M_1^S

The Money Market

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

$$\text{Money Supply } M^s = \text{Deposits} + \text{Currency}$$

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



Assets



Assume the Fed is
presently holding
100b in Bonds

Liabilities

Bank Reserves

$$R_A = 0.1 \times 250 = 25b$$

$$R_B = 0.1 \times 100 = 10b$$

$$R_C = 0.1 \times 150 = 15b$$

$$R_D = 0.1 \times 300 = 30b$$

$$R_E = 0.1 \times 200 = 20b$$

$$\text{Total Reserves} = 100b$$

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