

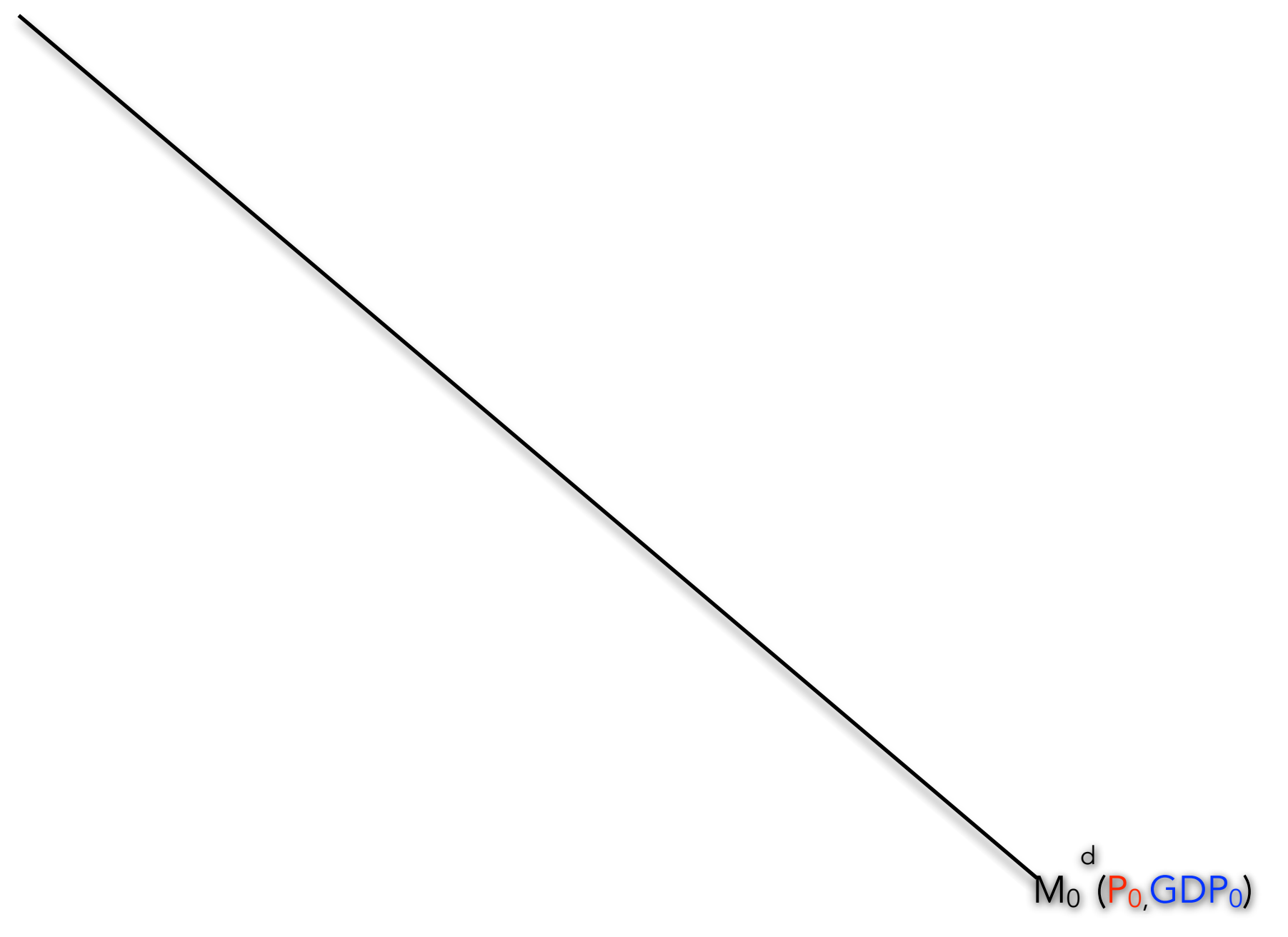


$i_1 = 1\%$  —————



*i*





$$i_0 = 5\%$$



$$M^d = 300b$$

$$i_1 = 3\%$$



$$M^d = 900b$$

$$i_2 = 1\%$$



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



























2













a

S





G



P



Assume the Money Market

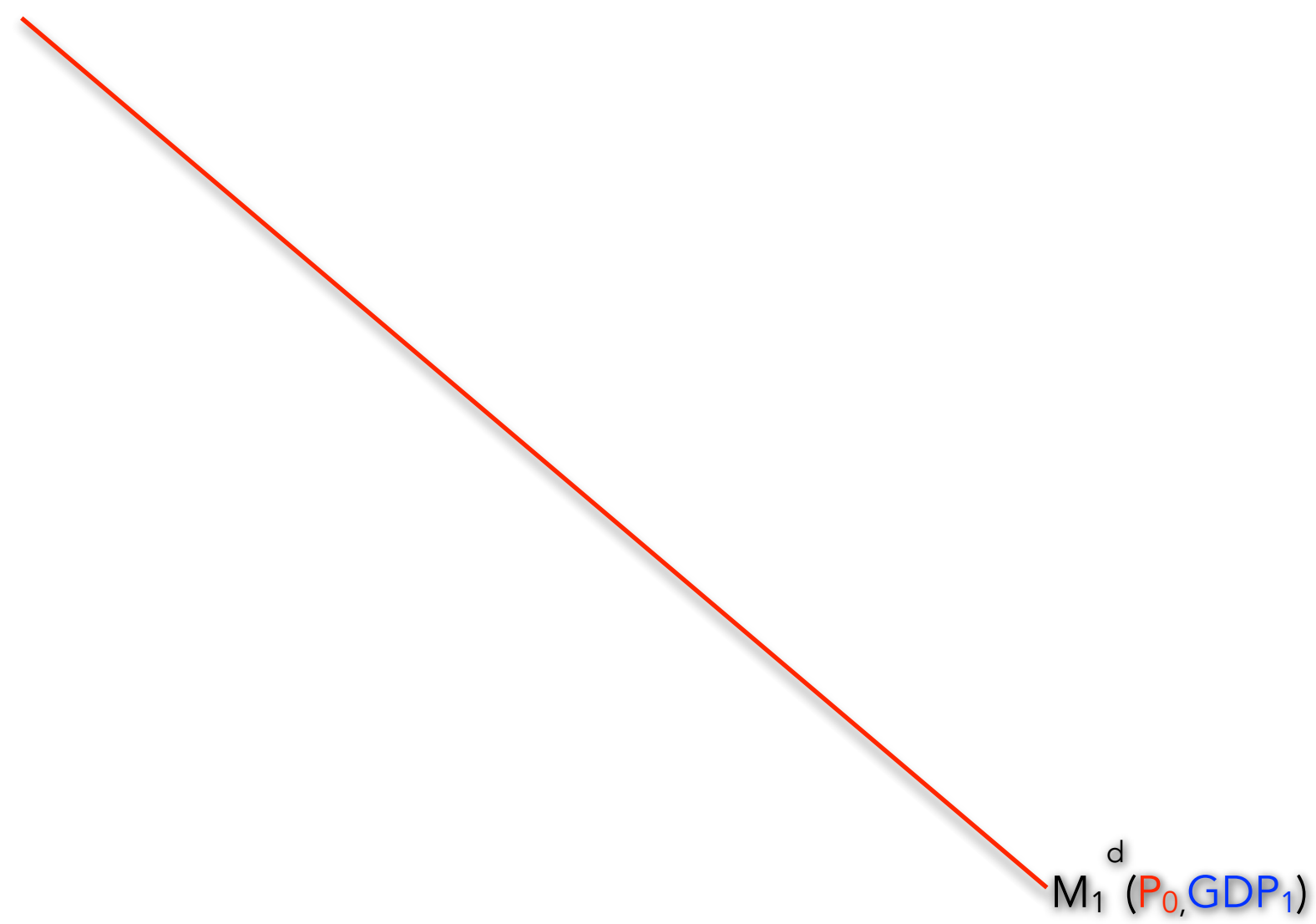


starts at equilibrium

$M_0^s$



$M_0^s = 900b$









G





P









e

a

S



e







W

e









2



S

2













S









**P**



U

**b**







W











e









W



e









u







**b**

2



a







S





A leftward shift in the  
Demand for Money

excess liquid balances





The interest rate will fall to  
a new equilibrium at 1%

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





New  
equilibrium

$M^d = 9000b$

The effect of a decrease in GDP

If GDP decrease (fewer transactions) the public will need lower liquid balances



# The effect of a decrease in GDP

If GDP decrease (fewer transactions) the public will need lower liquid balances

