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S

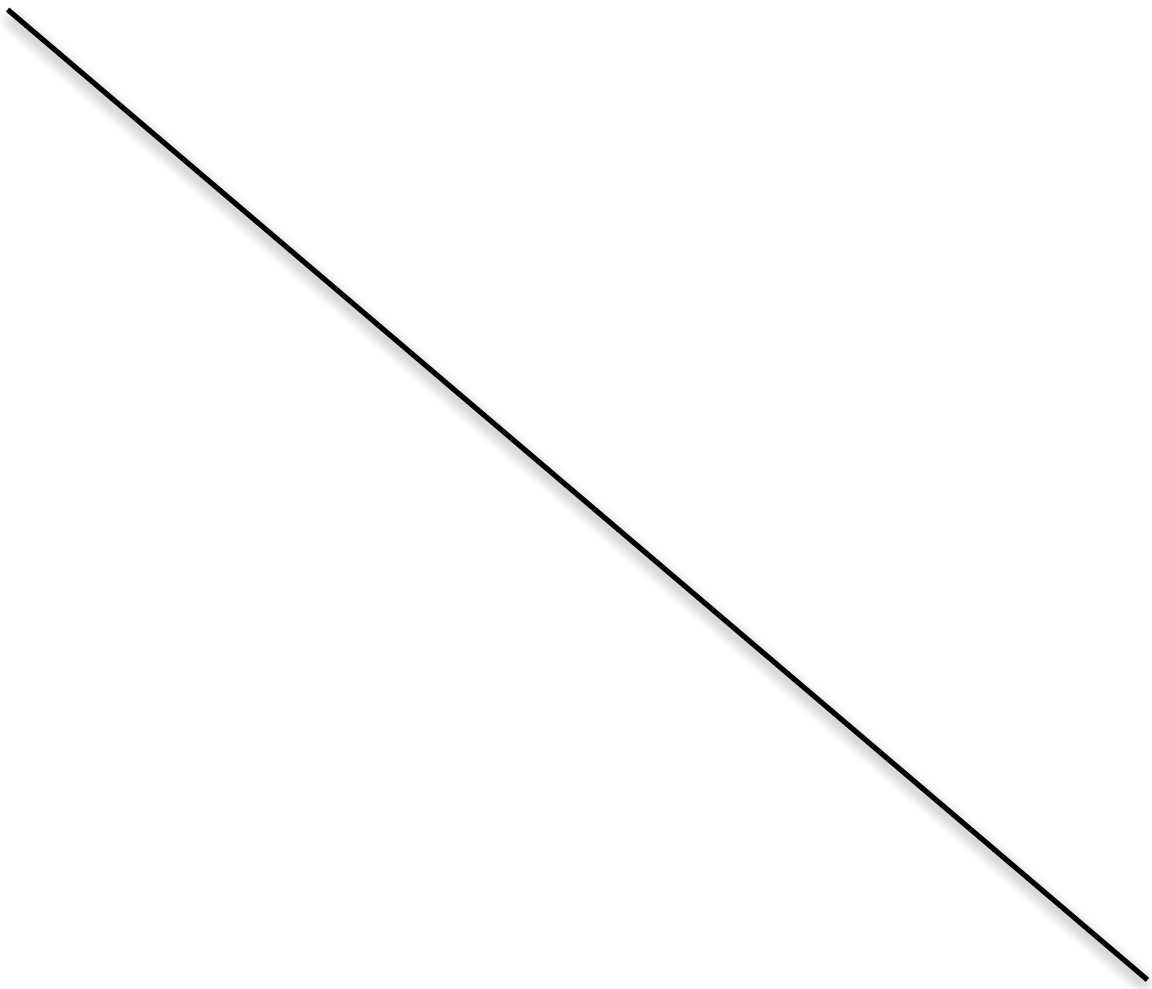
The higher the
demand for money

M^d

The lower the
demand for money

M^d

Currency + Deposits



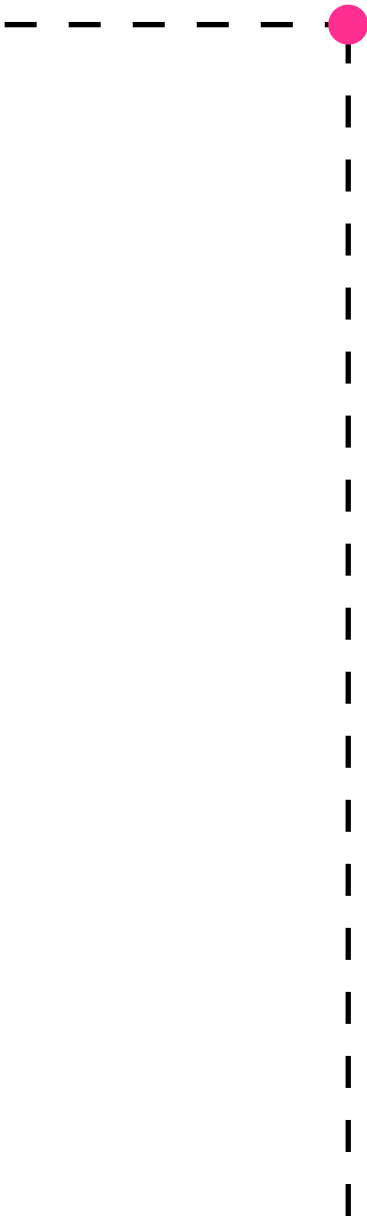
M^d

i

Interest Rate
to the
Public

i_0

i_1



$$M^d = 500$$



Quantity demanded for Money drops as the interest
rate increase

A movement
along M_d



The Demand for Money

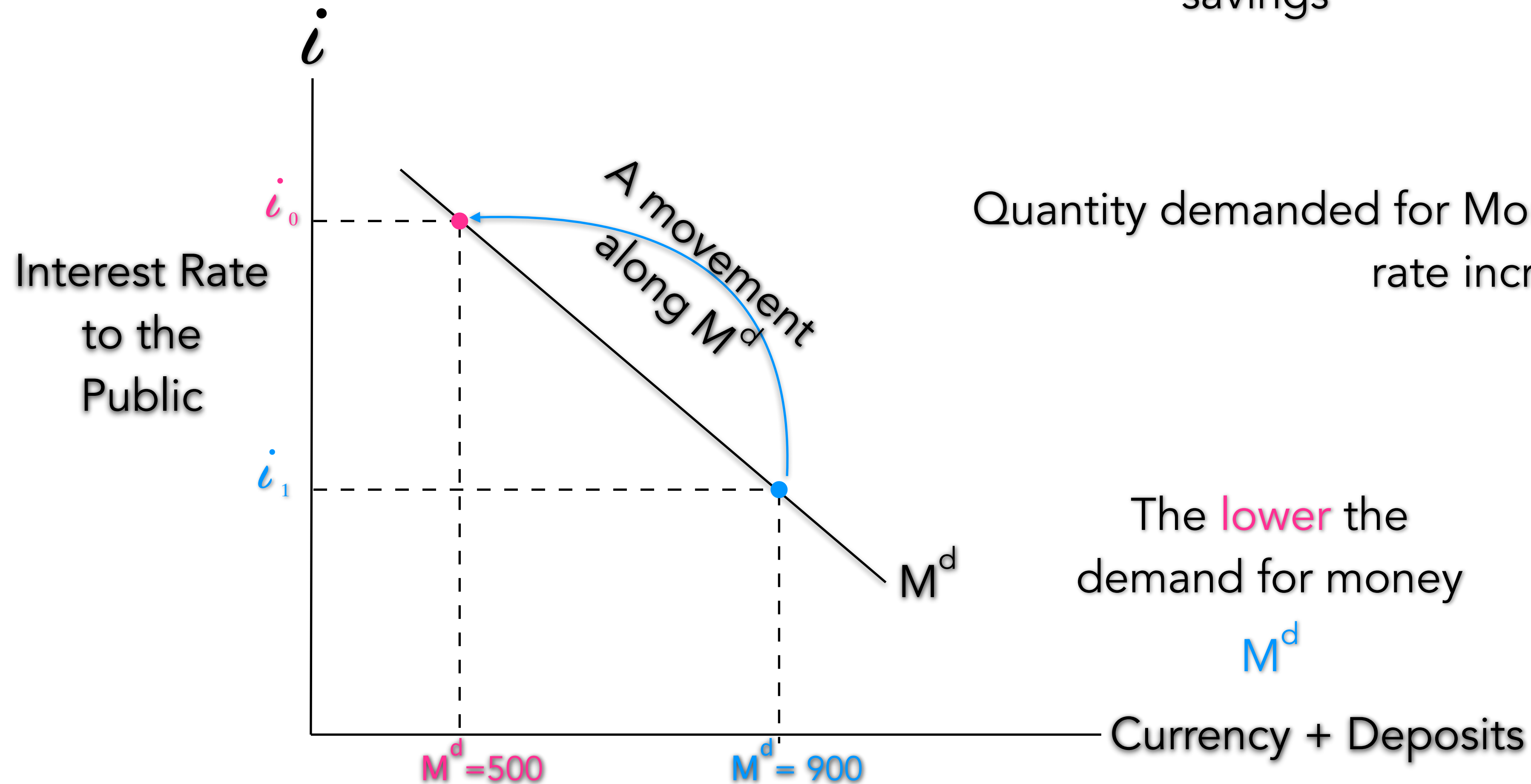
The higher the
Interest paid on
savings

The lower the
Interest paid on
savings

The Demand for Money

The **higher** the
Interest paid on
savings

The **lower** the
Interest paid on
savings



Quantity demanded for Money drops as the interest rate increase

The **lower** the
demand for money
 M^d

The **higher** the
demand for money
 M^d

What determines how much income
is needed for **transactions**?