

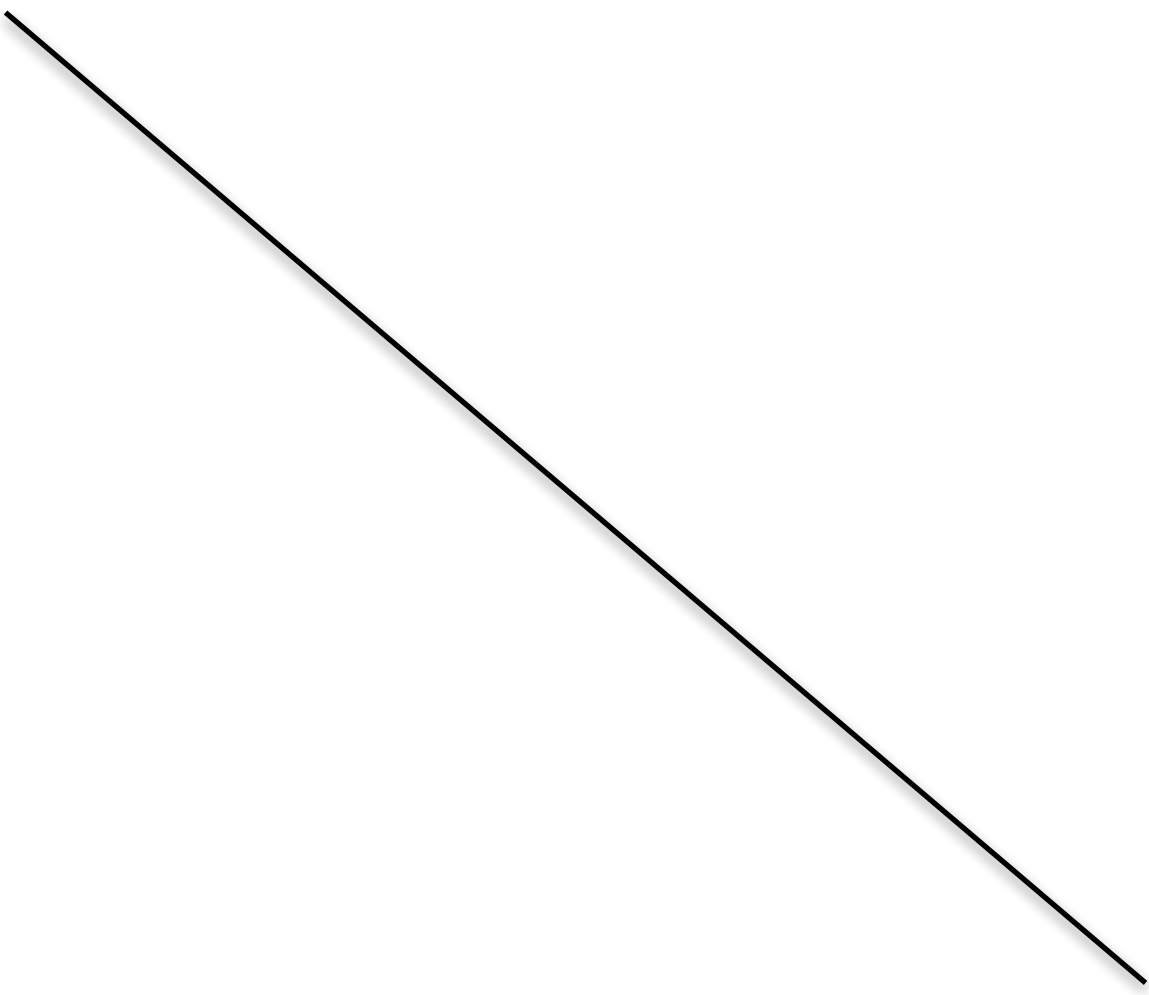
The higher the
Interest paid on
savings

The lower the
Interest paid on
savings

The higher the demand
for money M^d

The lower the demand
for money M^d

Currency + Deposits



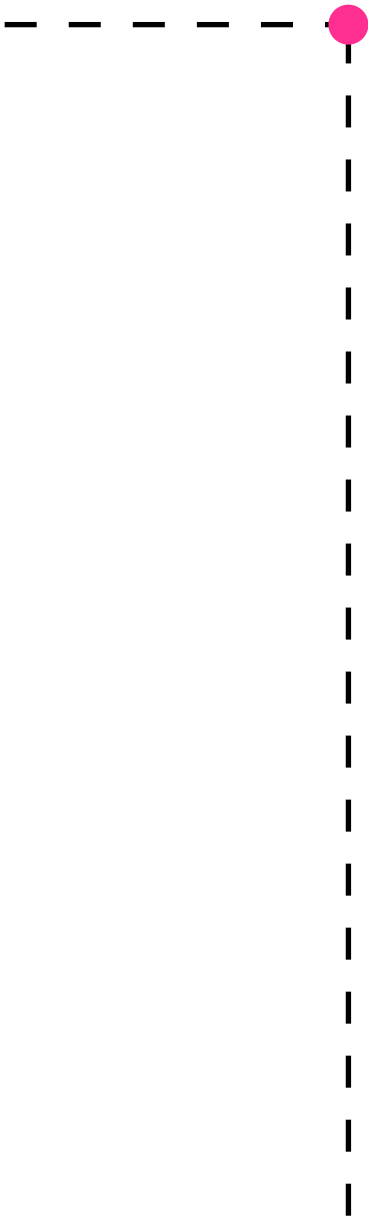
M^d

i

Interest Rate
on savings

i_0

i_1



$$M^d = 500$$



**Quantity demanded of
Money drops as the interest
rate increase**

A movement
along M_d



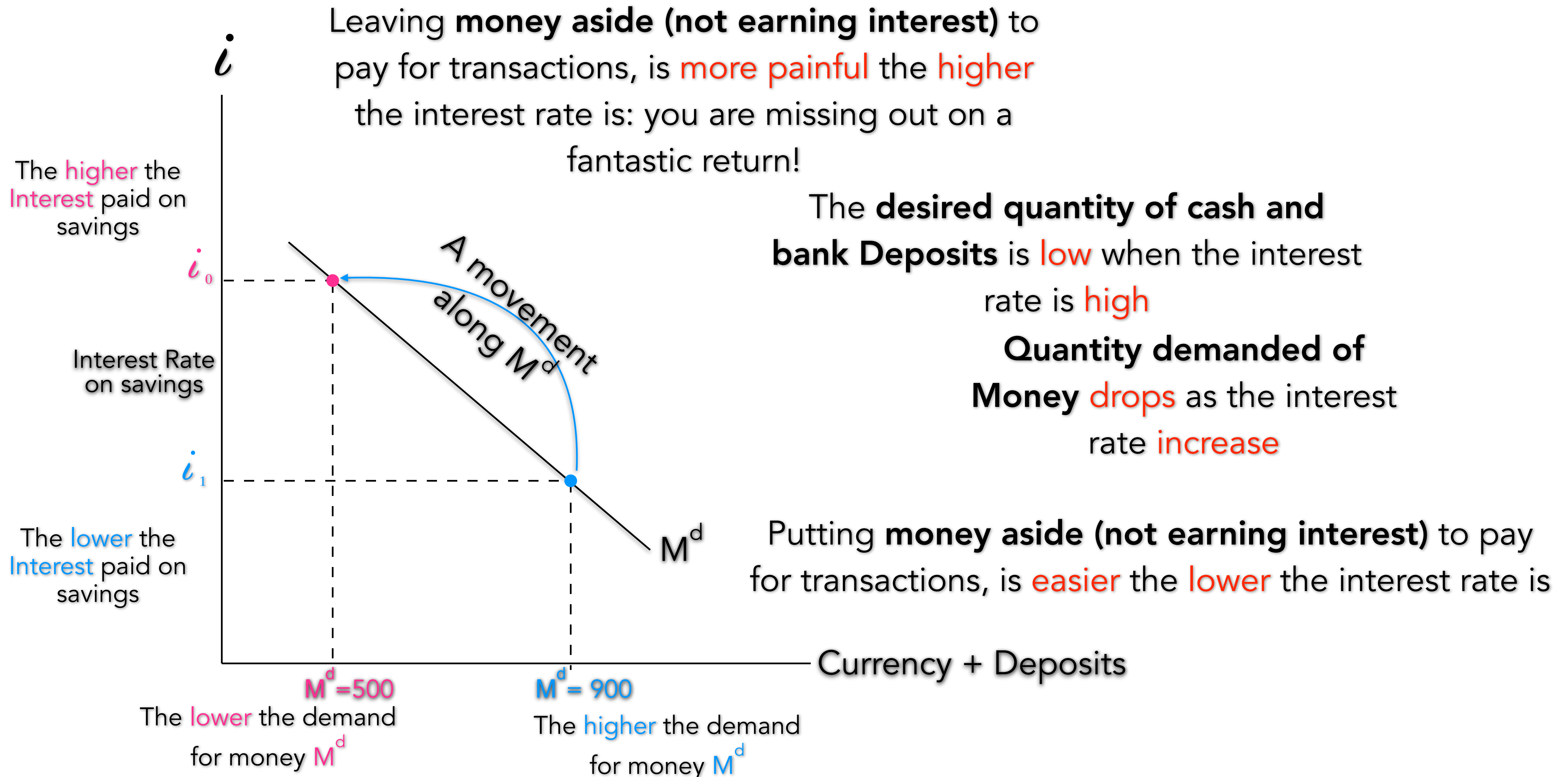
The Demand for Money

Leaving money aside (not earning interest) to pay for transactions, is more painful the higher the interest rate is: you are missing out on a fantastic return!

The desired quantity of cash and bank Deposits is low when the interest rate is high

Putting money aside (not earning interest) to pay for transactions, is **easier** the **lower** the interest rate is

The Demand for Money



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