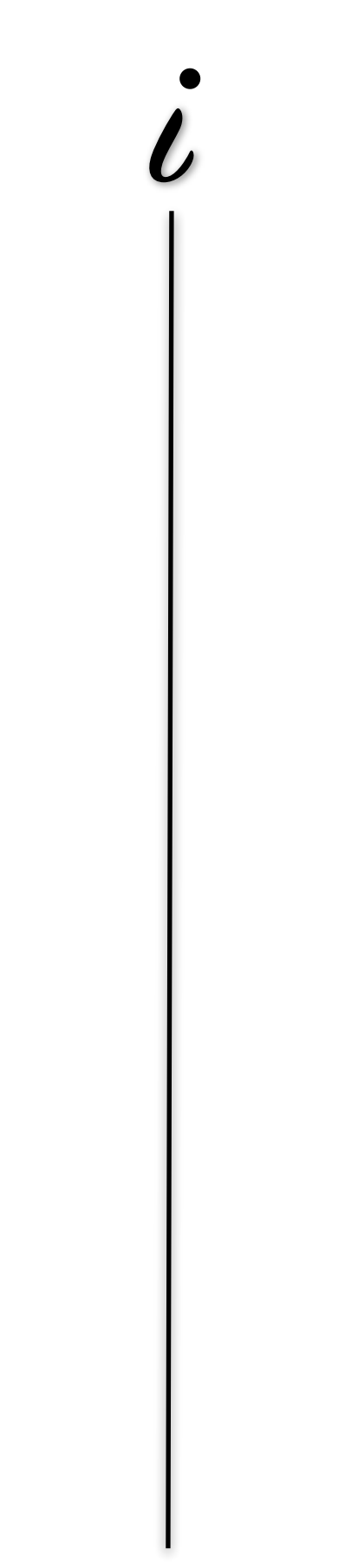
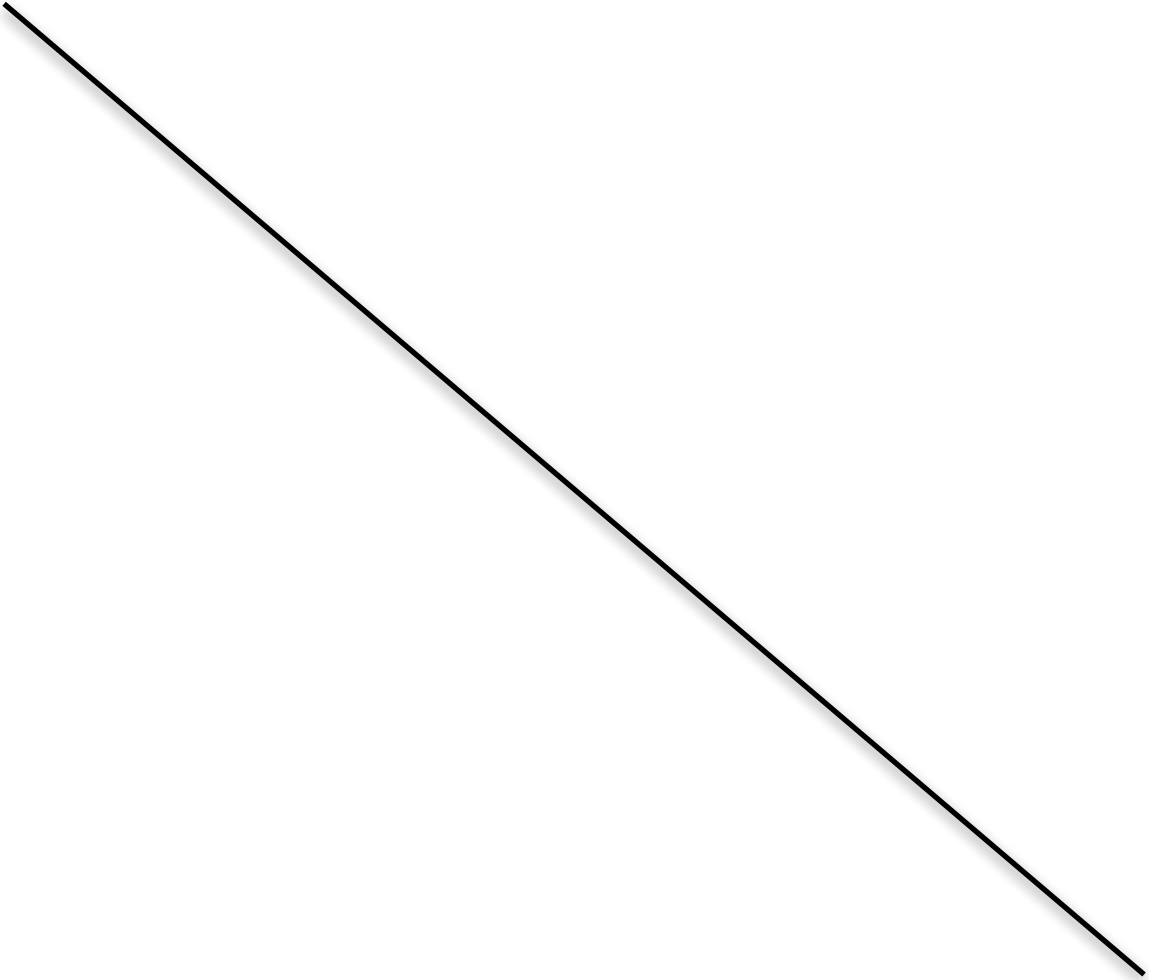
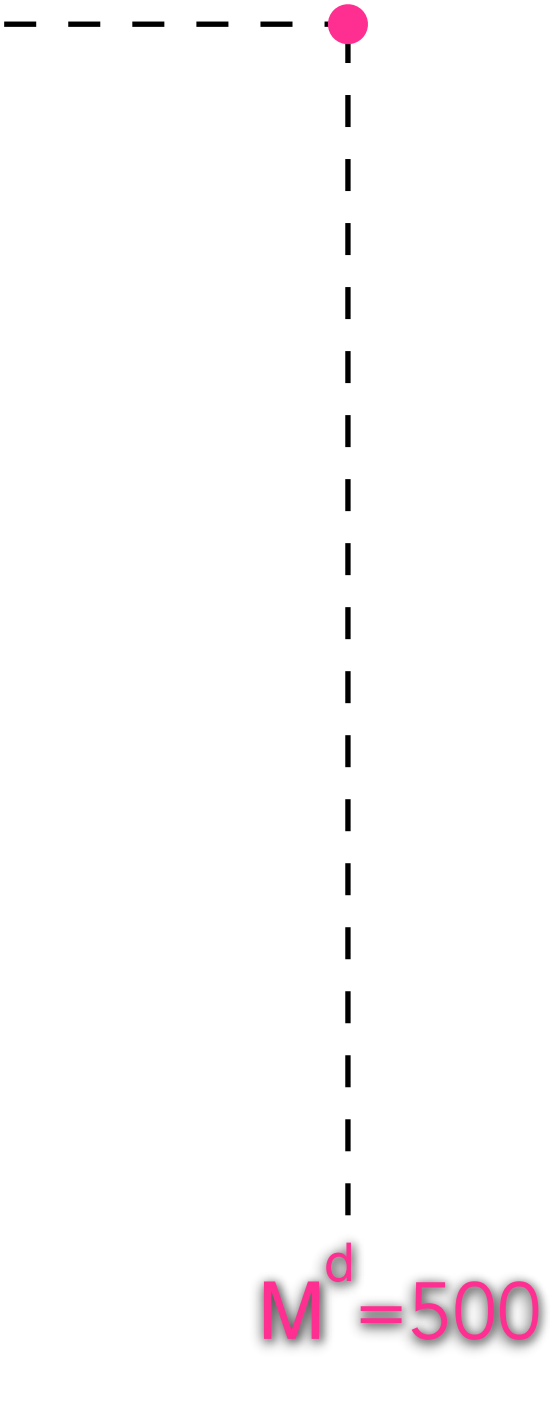
Currency
+ Deposits






M^d=500


$M^d = 900$

For each interest rate, the demand for money M^d represents the need for liquid balances for a given price level (P) and a given GDP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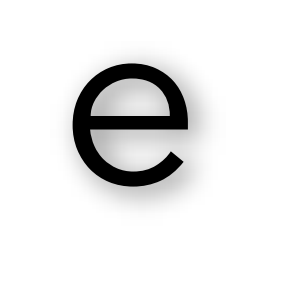

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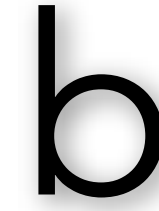

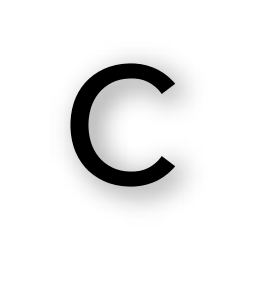
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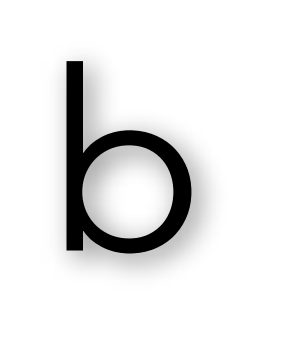

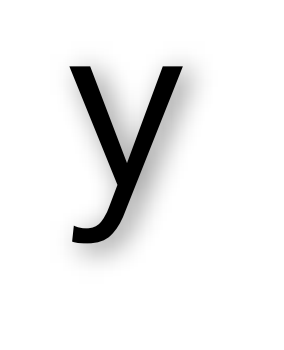
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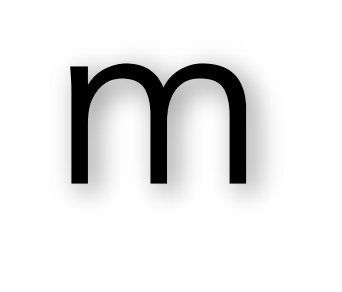

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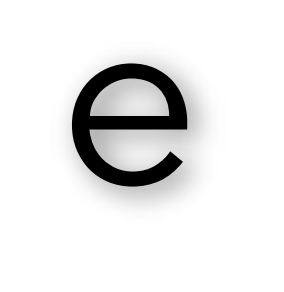


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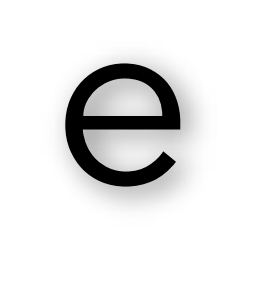


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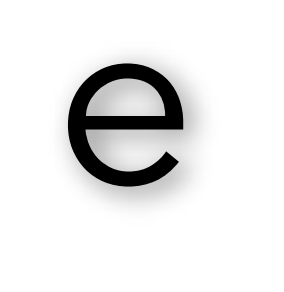

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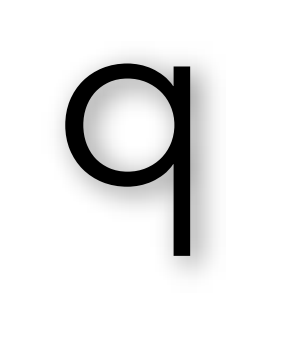

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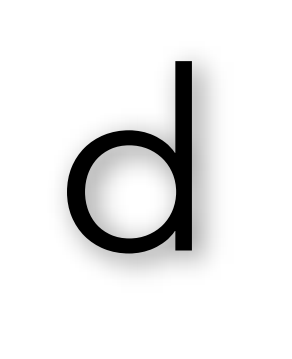

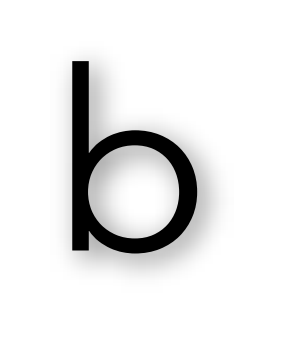

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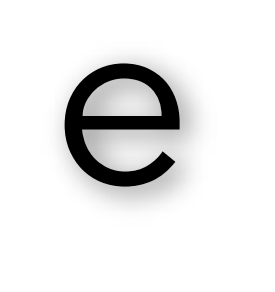

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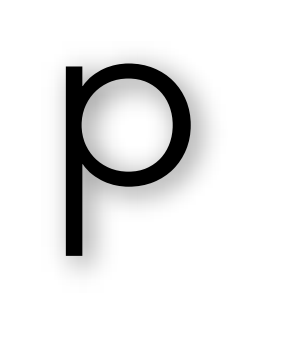

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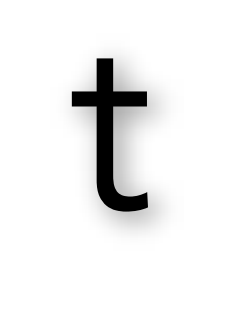
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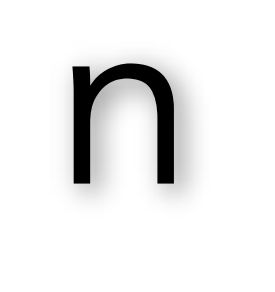
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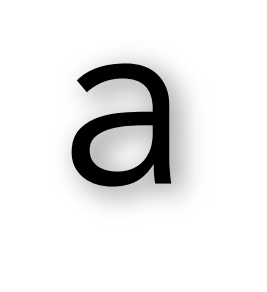
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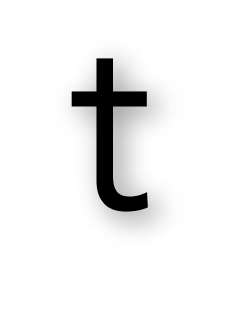
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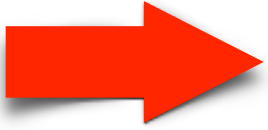
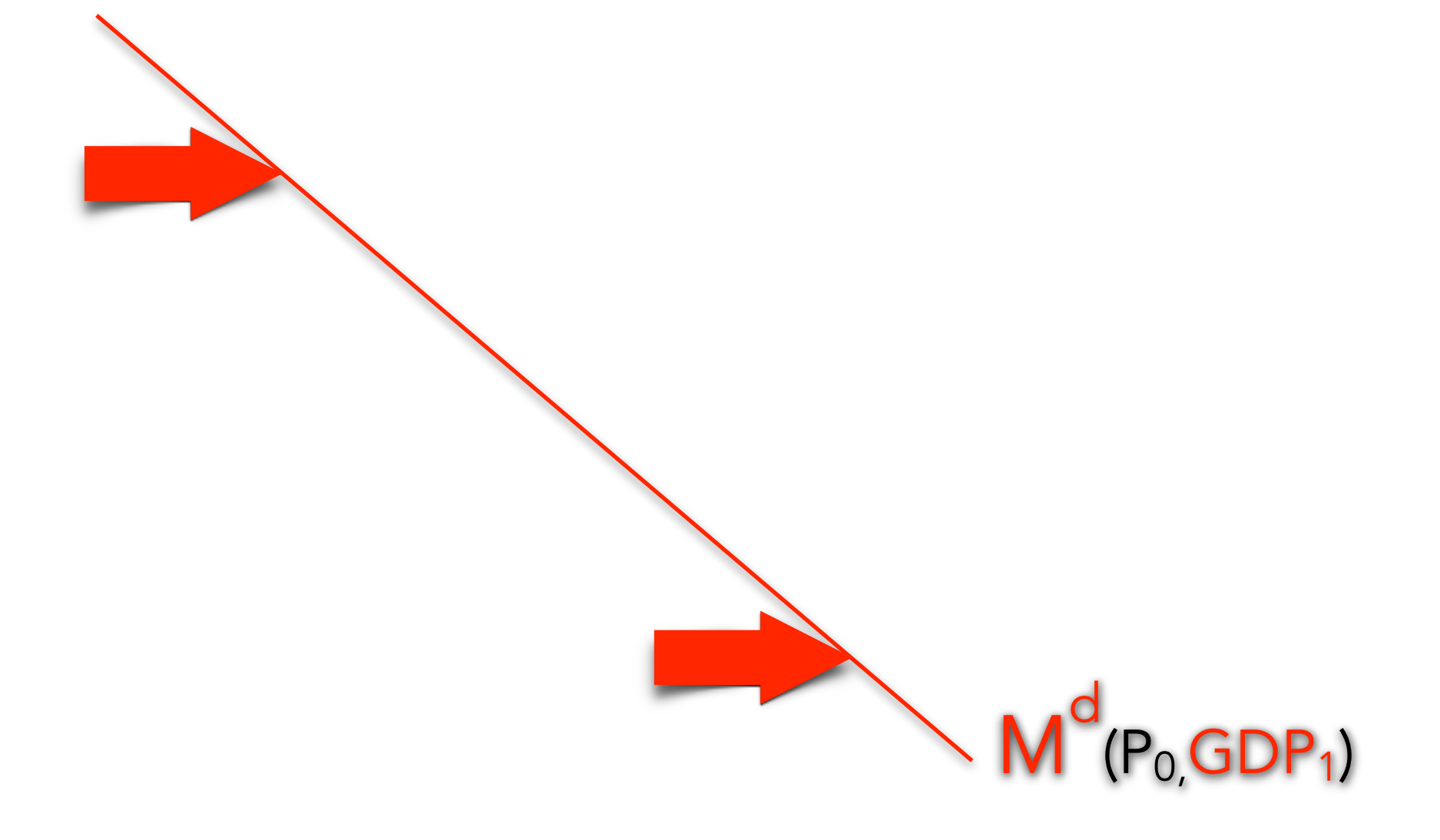
For all interest rates, the demand for liquid balances will be higher



A rightward shift in the Demand for Money

$$M^{d}_{(P_0, GDP_0)}$$


$M^d(P_0, GDP_1)$


a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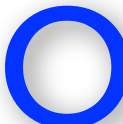


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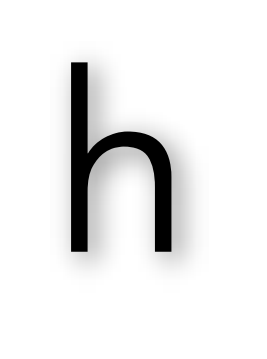
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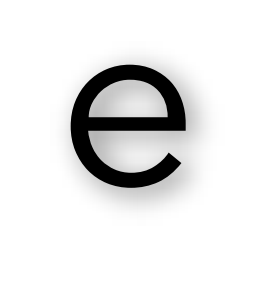

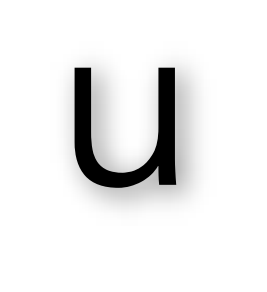

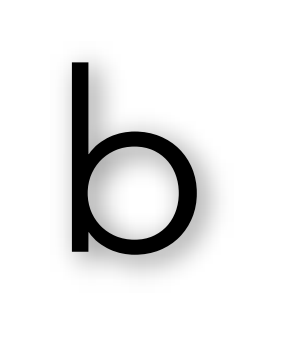

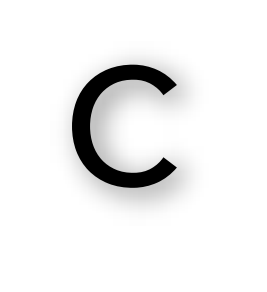
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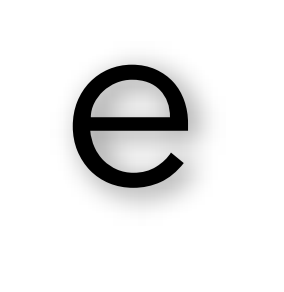

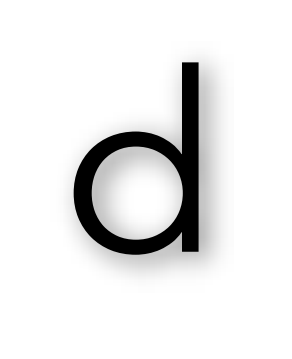

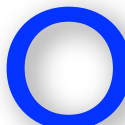


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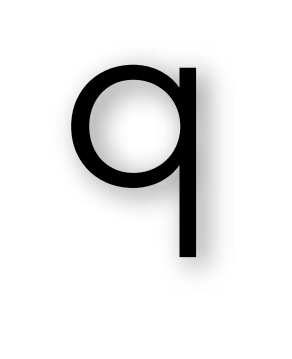

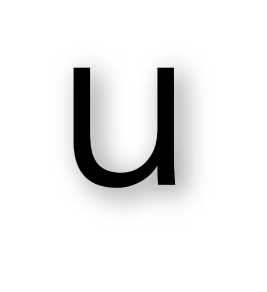

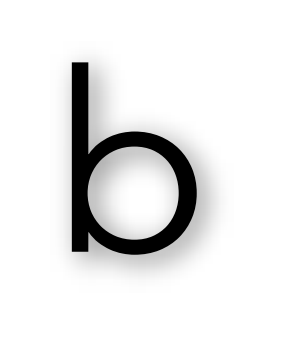

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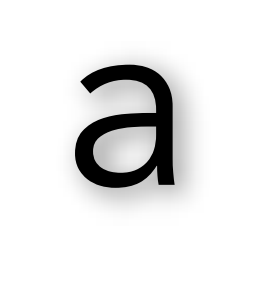
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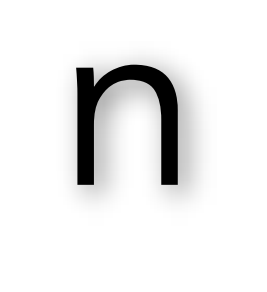
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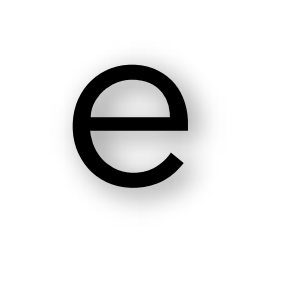

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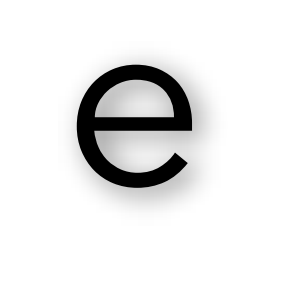

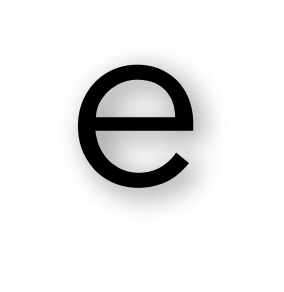

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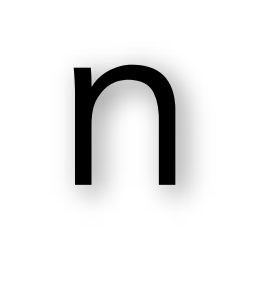
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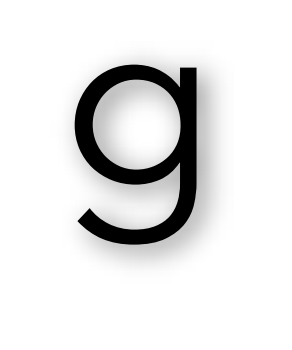

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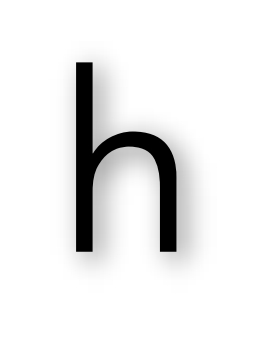

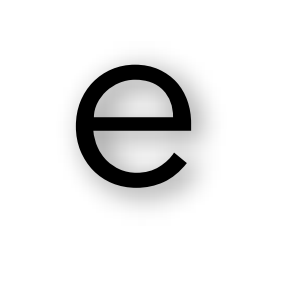

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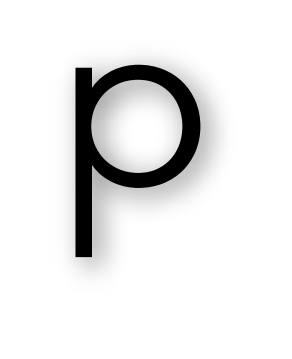

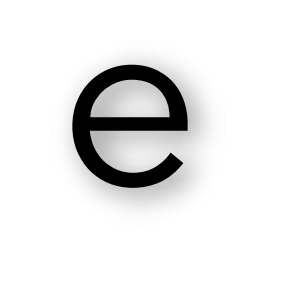

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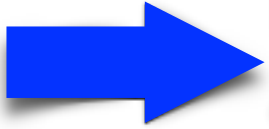
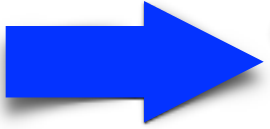
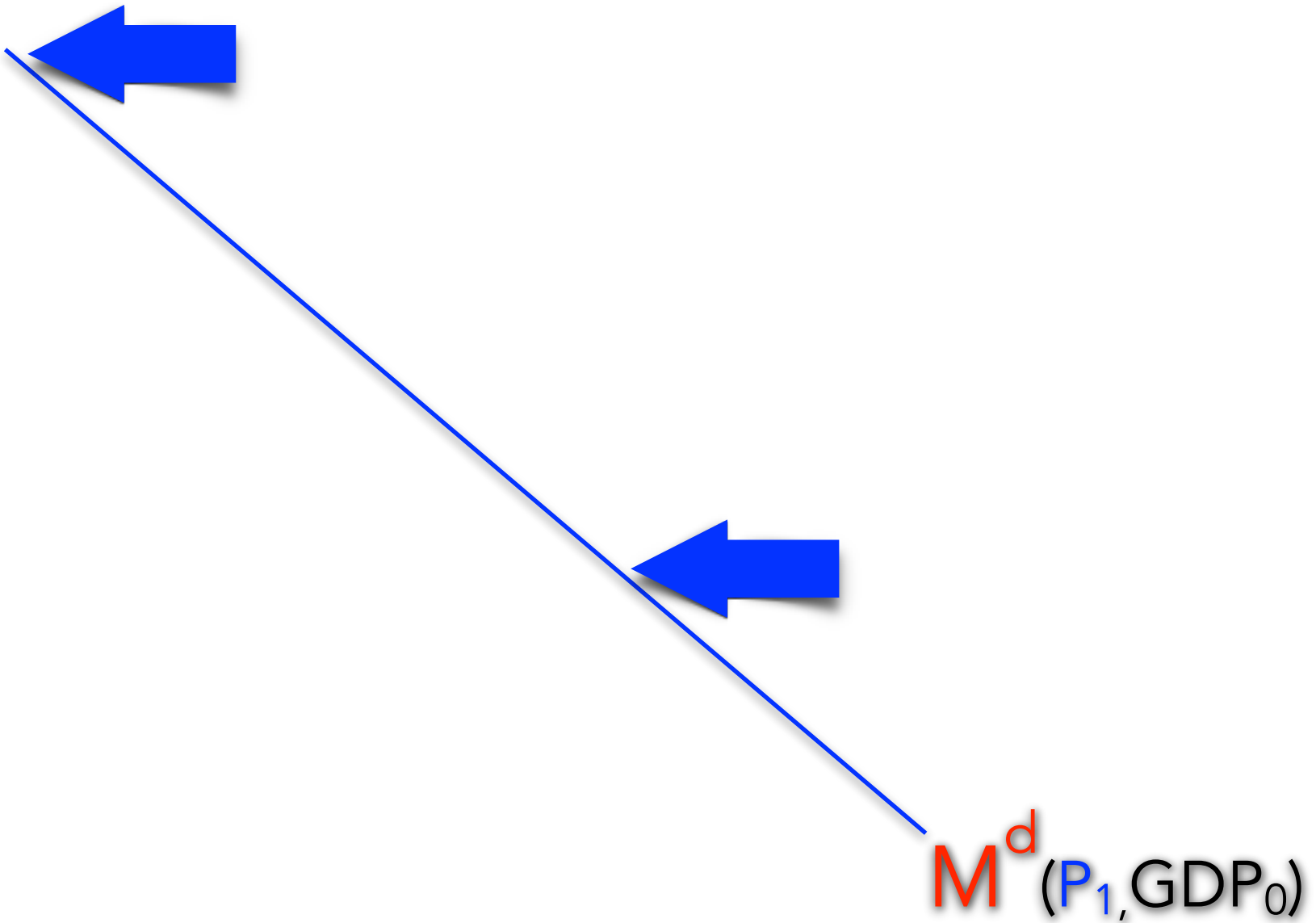


For all interest rates, the demand for liquid balances will be lower



A leftward shift in the Demand for Money


$M^d(P_1, GDP_0)$

How much money is needed for transactions?

If lunch is cheaper:
price is $5/lunch,
then I need to have
7x5=$35in cash or
check

If I buy lunch **and dinner** 7 days a week, then I need 14x15=$210 in cash or check

If GDP increase (the public buys more) we will need larger liquid balances to pay for more transactions

If Prices decrease (deflation) the public will need lower liquid balances as everything is cheaper

How much money is needed for transactions?

If GDP increase (the public buys more) we will need larger liquid balances to pay for more transactions

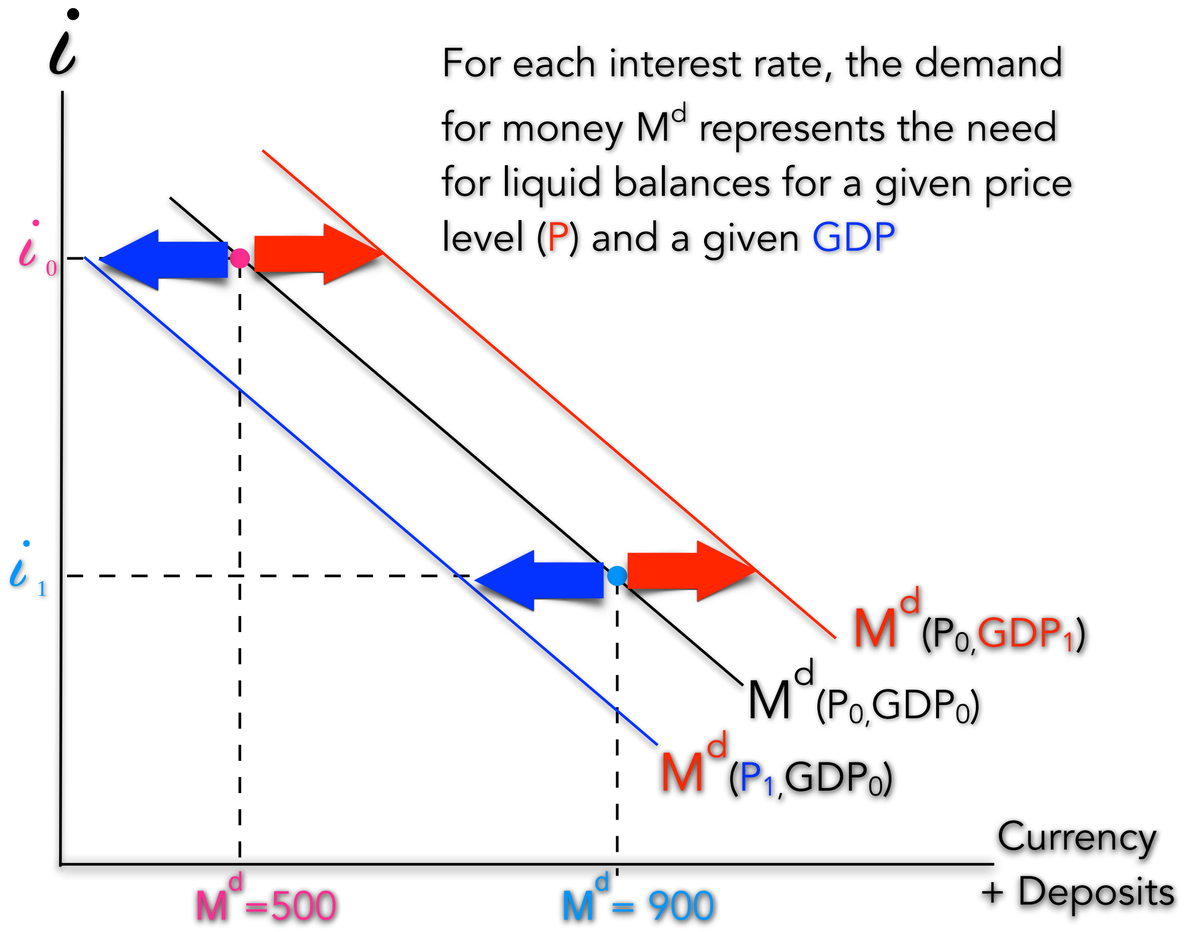
→ For all interest rates, the demand for liquid balances will be higher

→ A rightward shift in the Demand for Money

If Prices decrease (deflation) the public will need lower liquid balances as everything is cheaper

→ For all interest rates, the demand for liquid balances will be lower

→ A leftward shift in the Demand for Money



Understanding the Supply and Demand for Money