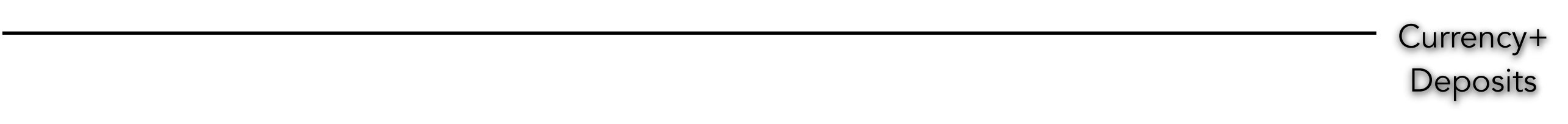




If the interest rate is above  
equilibrium, there are  
excess liquid balances,  
money is plentiful and  
there is pressure for the  
interest rate to fall

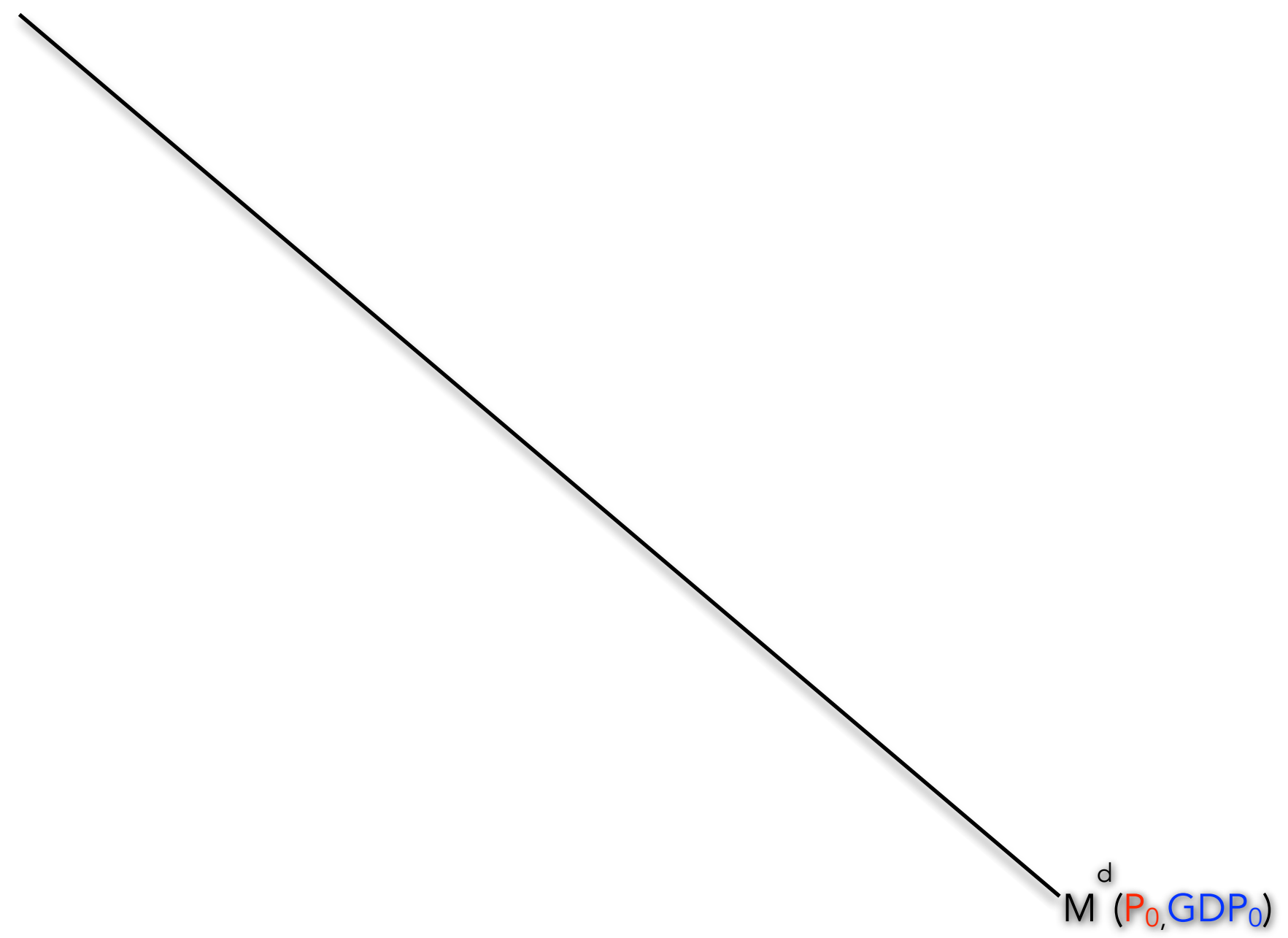


Equilibrium in the Money Market



*i*

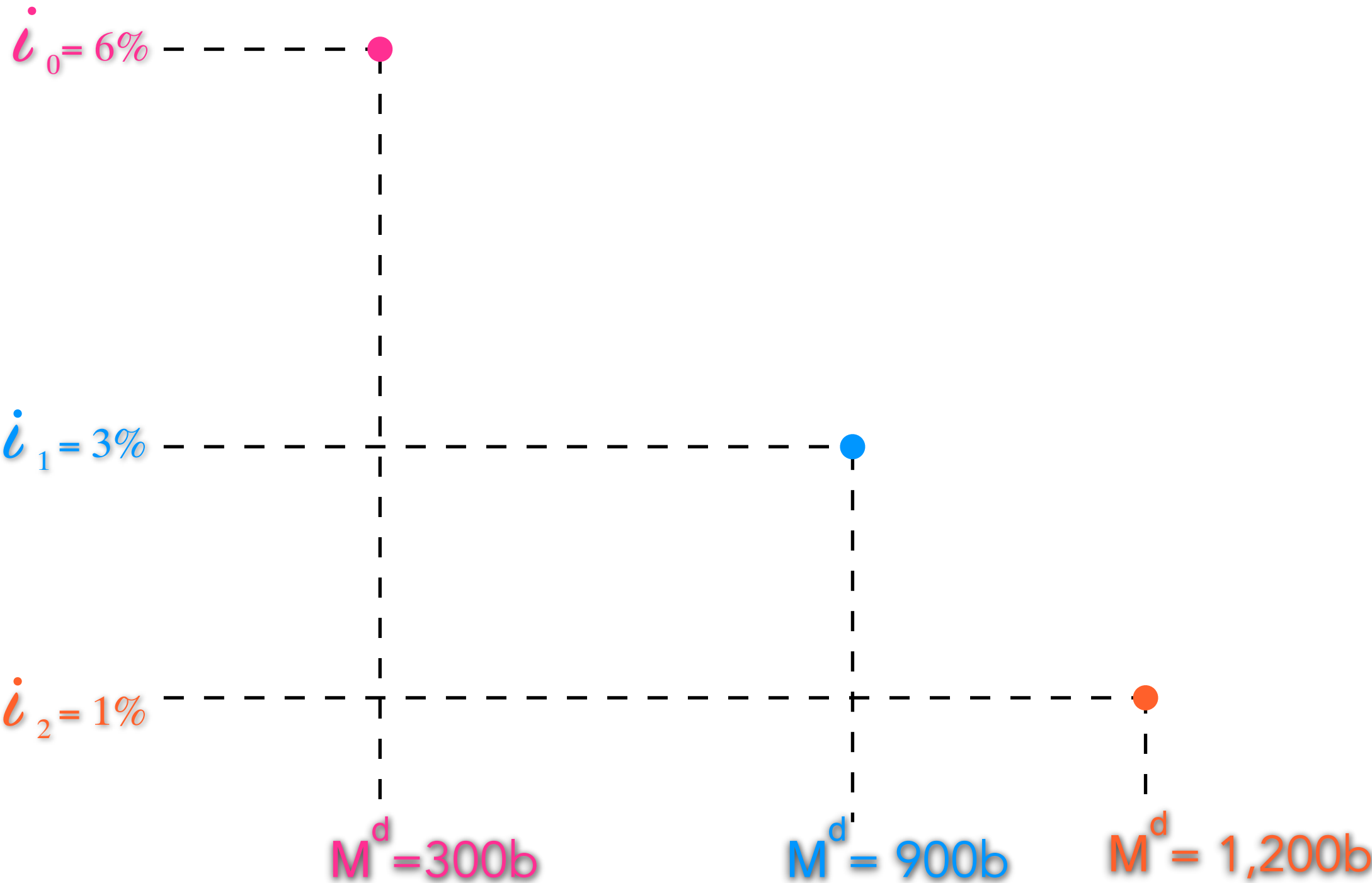




$M^s$




$M^s = 900b$





If the interest rate is 3%,  
the amount of currency +  
deposits the public is  
actually holding is exactly  
what the public needs to  
hold for transactions

The public will not need to look for lenders  
 or borrowers and thus there will be no  
reason for the interest rate to change

W























**Y**











3



























U















U











W















2















3





2













S

W











W











V















































U







b







U



We can safely assume that the Money



Market will eventually settle at

equilibrium

The Money Market is in  
equilibrium at a 3%  
interest rate

$$i_e = 3\%$$

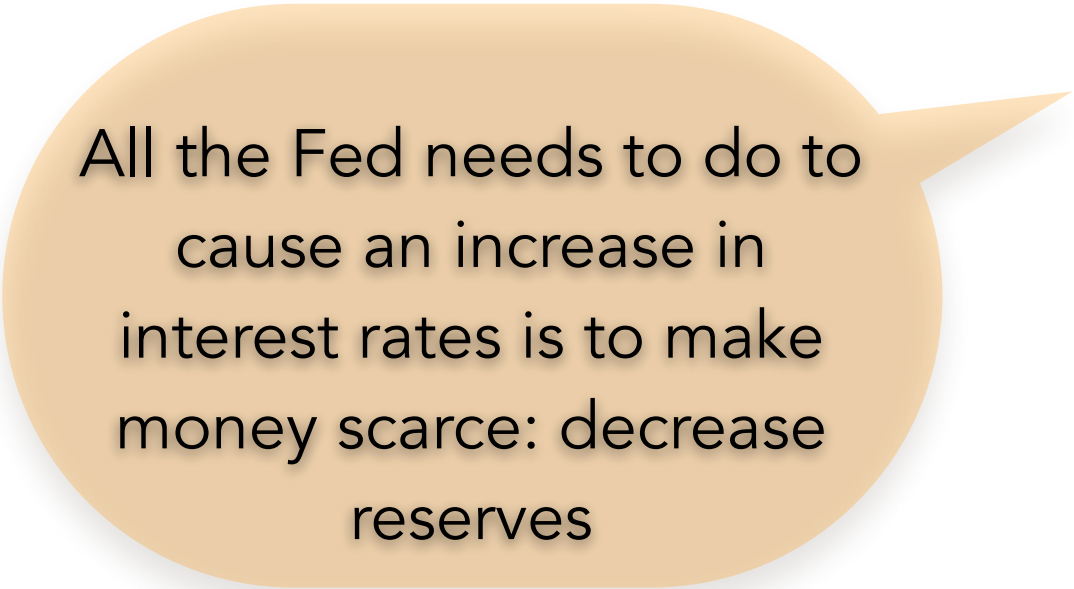
If the interest rate is  
**below** equilibrium, there  
are shortages of liquid  
balances, **money is scarce**  
and there is **pressure for**  
**the interest rate to rise**



A pink speech bubble with a white drop shadow, pointing towards the bottom right. Inside the bubble is black text.

All the Fed needs to do to  
cause a decrease in  
interest rates is to make  
money plentiful: inject  
reserves





All the Fed needs to do to  
cause an increase in  
interest rates is to make  
money scarce: decrease  
reserves

Whether money is scarce or plentiful, the public will engage in transactions which will move the interest rate to equilibrium

# Equilibrium in the Money Market

All the Fed needs to do to cause a decrease in interest rates is to make money plentiful: inject reserves

Whether money is scarce or plentiful, the public will engage in transactions which will move the interest rate to **equilibrium**

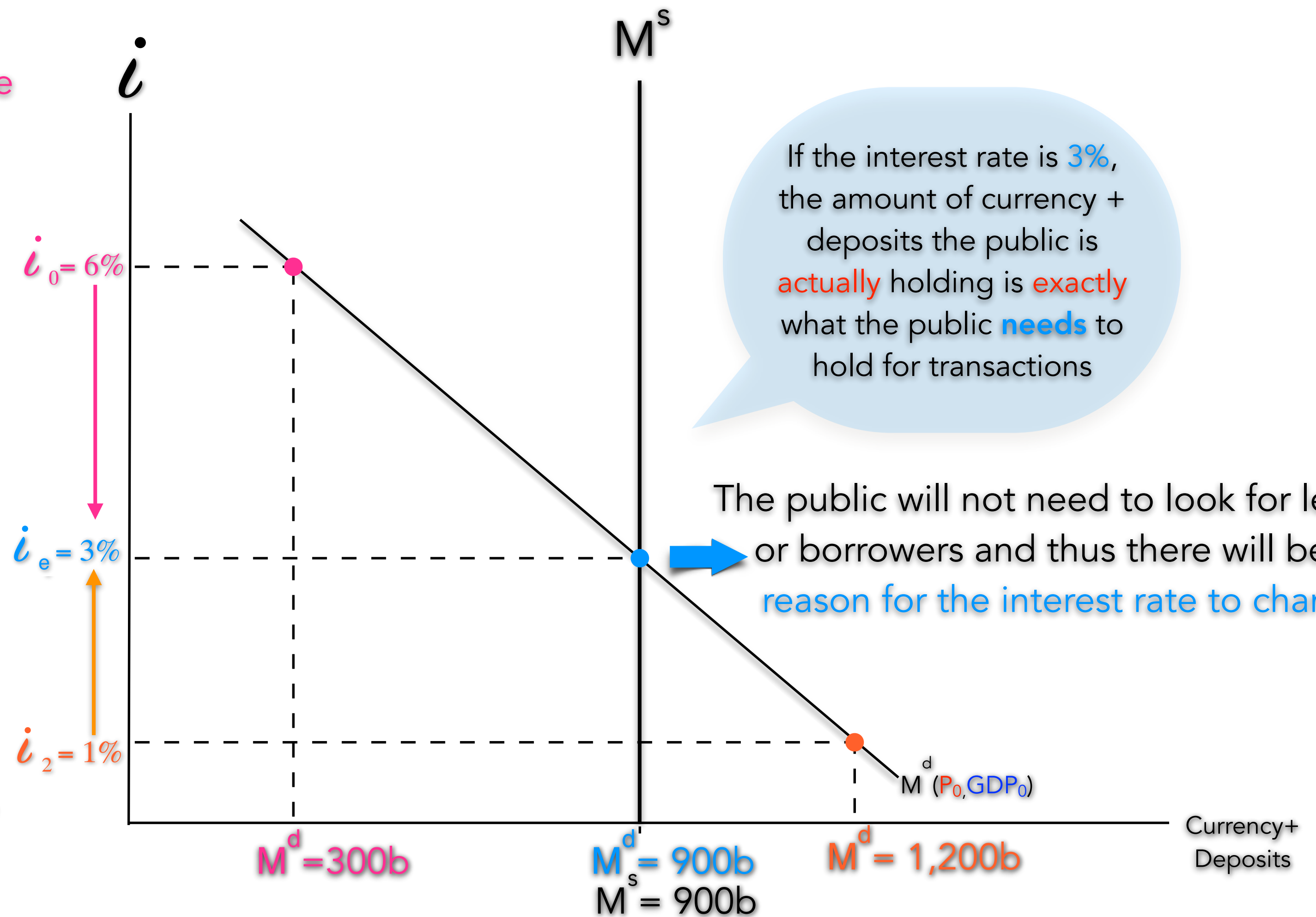
We can safely assume that the Money Market will eventually settle at **equilibrium**

If the interest rate is **above** equilibrium, there are excess liquid balances, **money is plentiful** and there is **pressure for the interest rate to fall**

The Money Market is in **equilibrium** at a **3%** interest rate

If the interest rate is **below** equilibrium, there are shortages of liquid balances, **money is scarce** and there is **pressure for the interest rate to rise**

All the Fed needs to do to cause an increase in interest rates is to make money scarce: decrease reserves



If the interest rate is **3%**, the amount of currency + deposits the public is **actually** holding is **exactly** what the public **needs** to hold for transactions

The public will not need to look for lenders or borrowers and thus there will be **no reason for the interest rate to change**