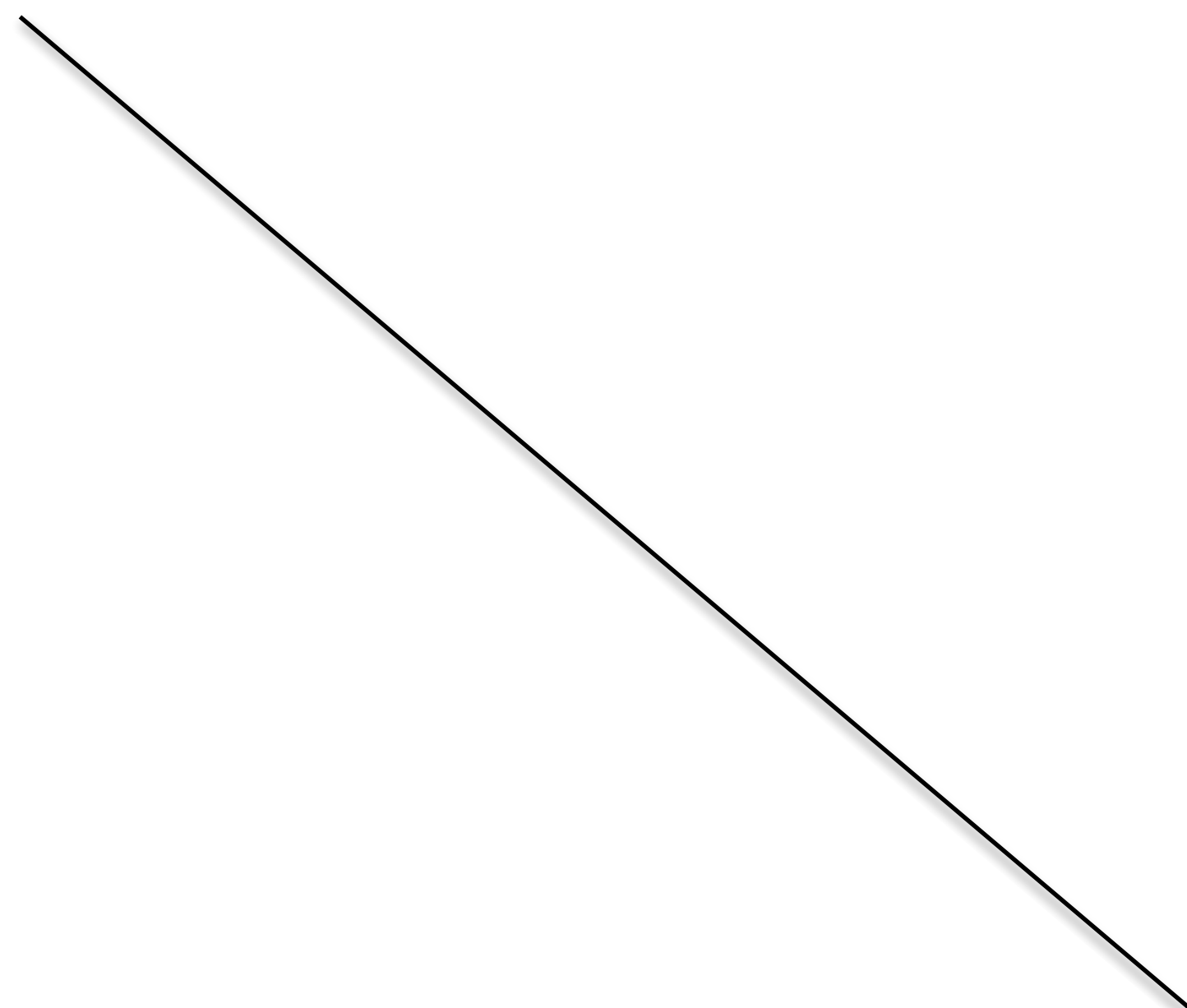


i





$$M^d(P_0, GDP_0)$$

$$i_0 = 6\%$$

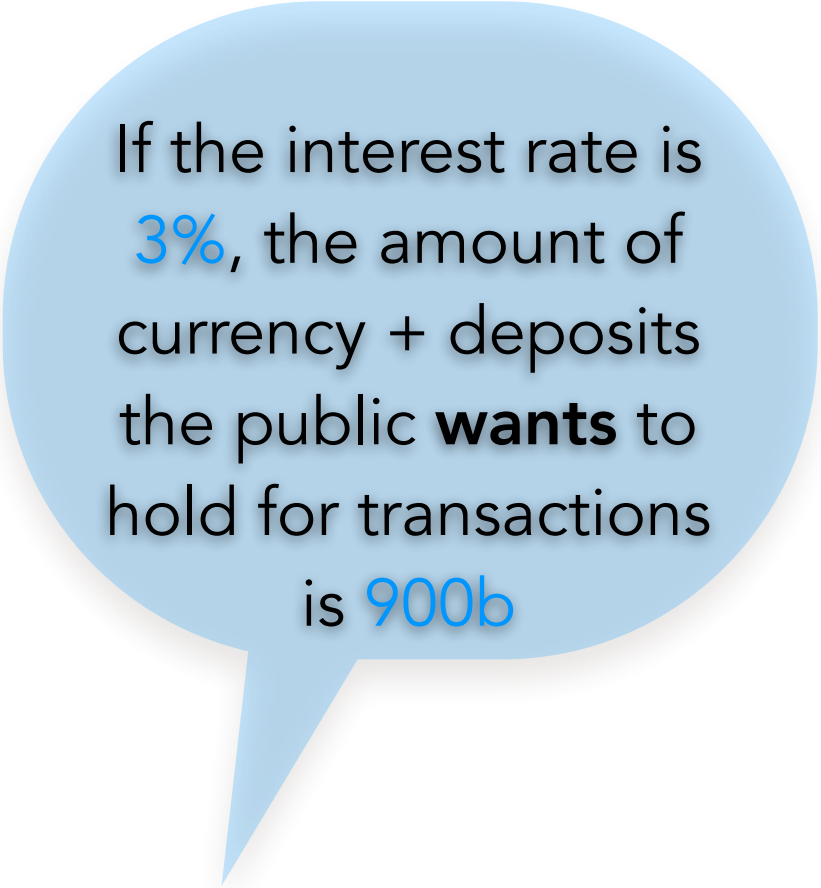
$$M^d = 300b$$

$$i_1 = 3\%$$



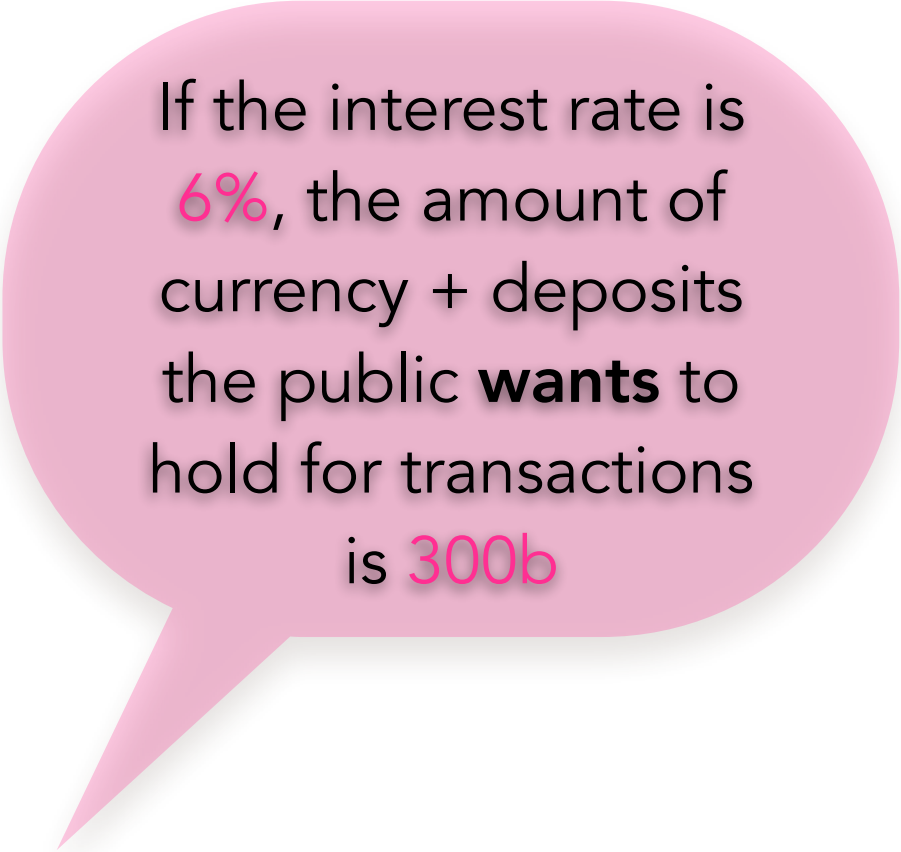
$$M^d = 900b$$

M^s is the amount of
currency + deposits
the public **actually**
holds = 900b



If the interest rate is
3%, the amount of
currency + deposits
the public **wants** to
hold for transactions
is 900b

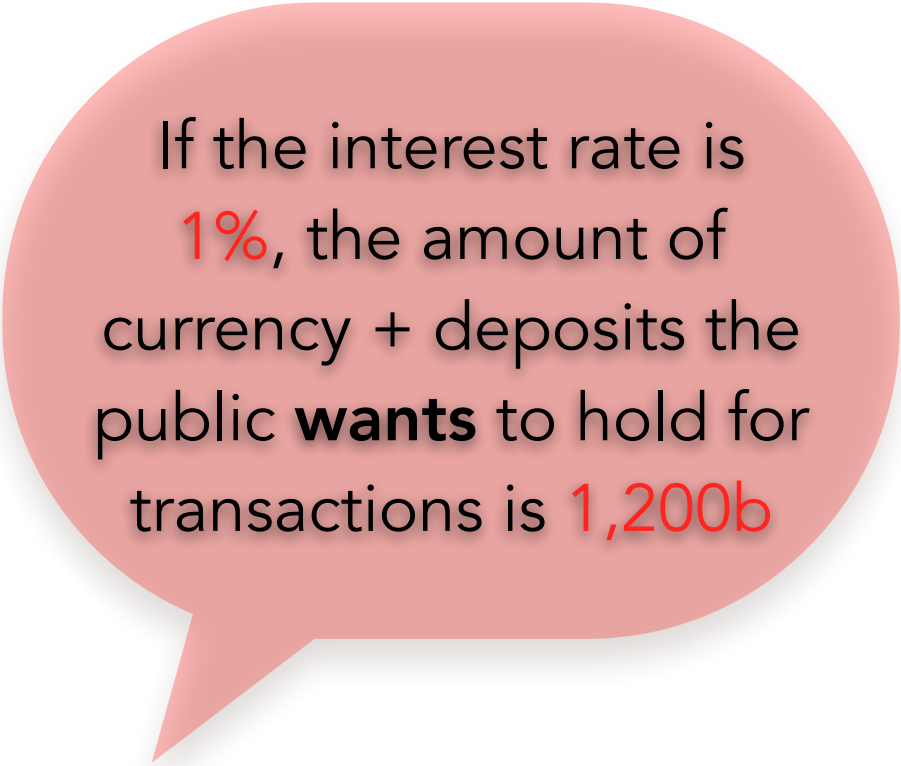
An example

A large, light pink speech bubble with a pointed tail at the bottom left. Inside the bubble, text is written in black and pink. The text describes the relationship between an interest rate and the amount of currency and deposits the public wants to hold for transactions.

If the interest rate is
6%, the amount of
currency + deposits
the public **wants** to
hold for transactions
is **300b**

$$i_2 = 1\%$$

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



If the interest rate is
1%, the amount of
currency + deposits the
public **wants** to hold for
transactions is **1,200b**

i

M^s

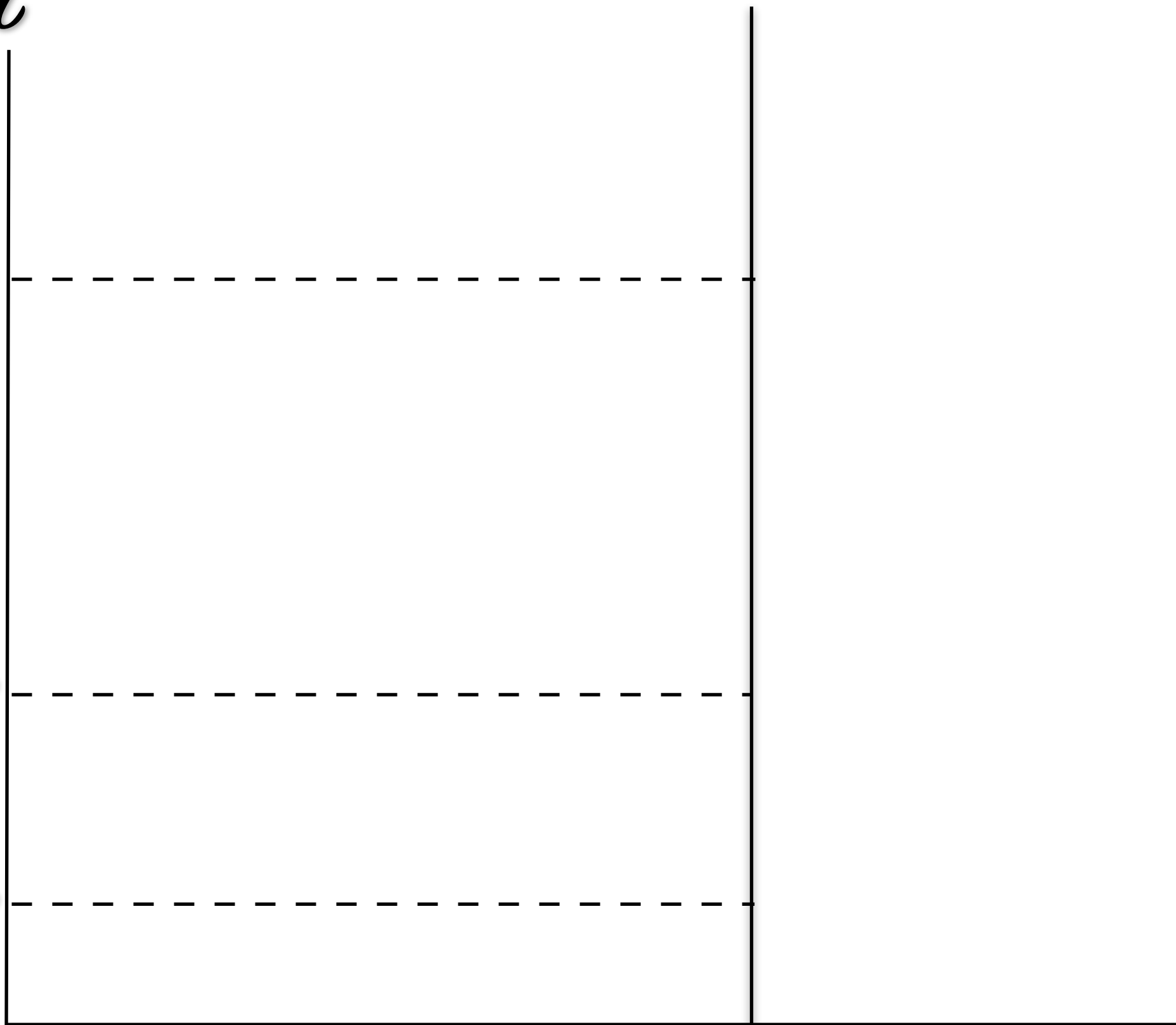
$i_0 = 6\%$

$i_1 = 3\%$

$i_2 = 1\%$

$M^s = 900b$

Currency +
Deposits

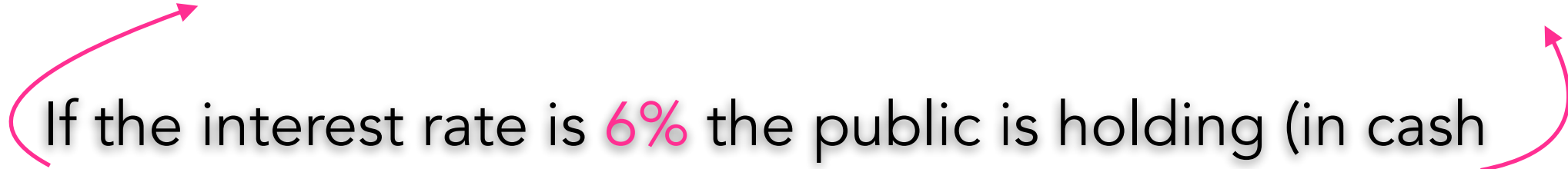


The Money Supply

The Money Demand

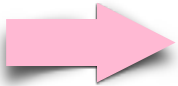


If the interest rate is 3% the public has exactly as much liquid
balances as they want for everyday transactions



If the interest rate is 6% the public is holding (in cash and deposits) more liquid balances than they want for everyday transactions

The public has **excess liquid balances** which they do not need for transactions, sitting idle (not earning interest) in cash and checking accounts



The public does **not**
have enough liquid
balances (cash and
deposits) to pay for
transactions



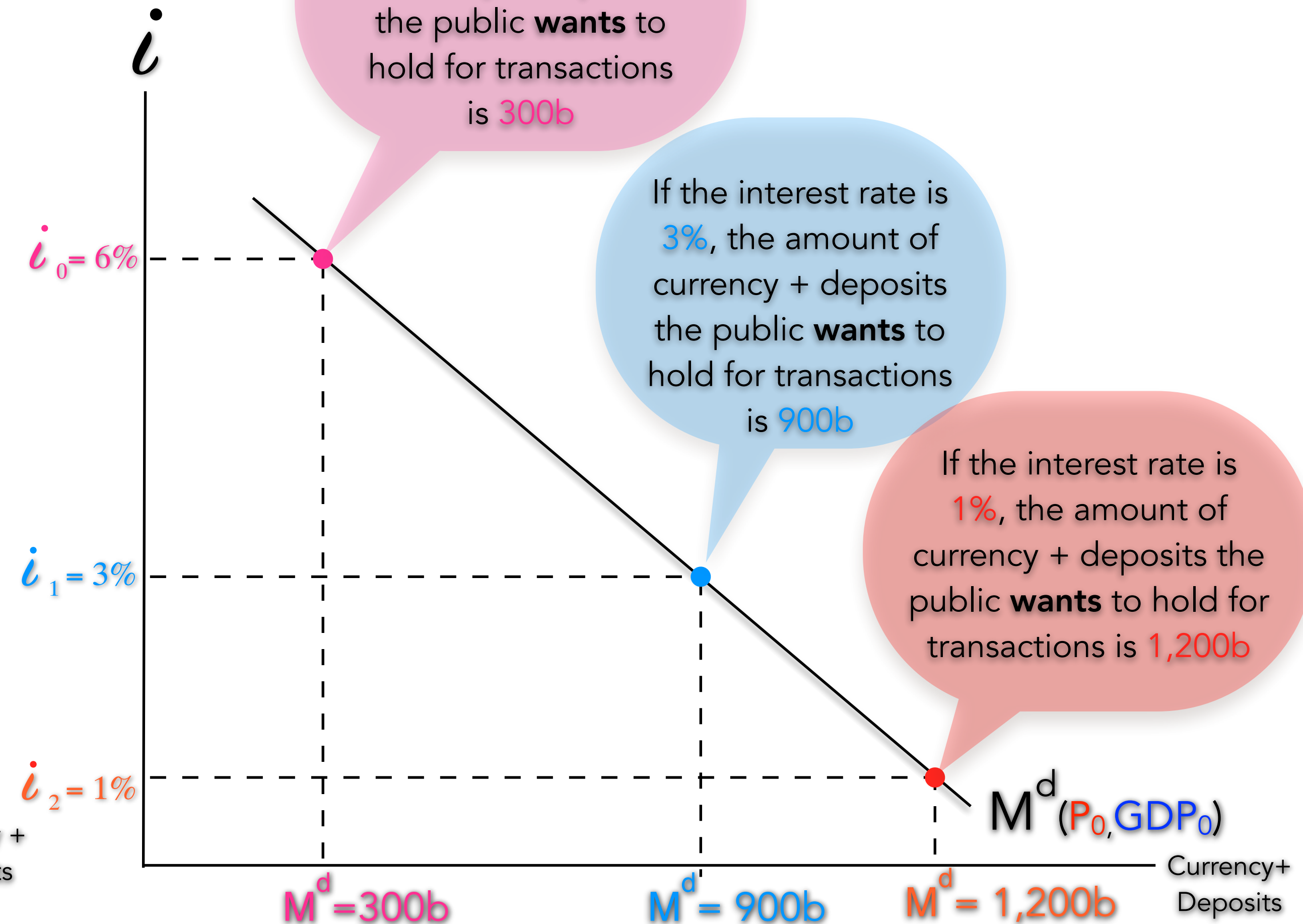
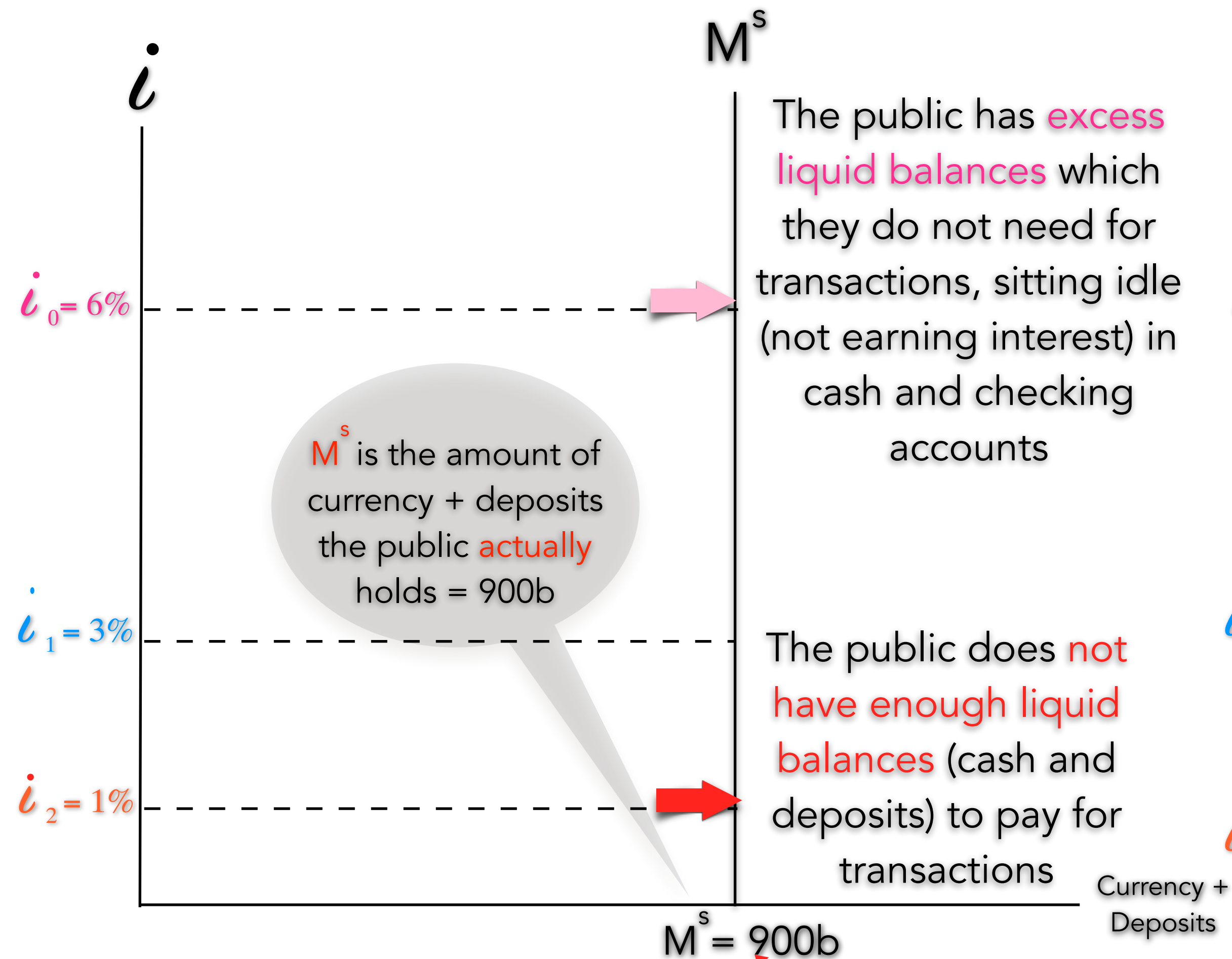


If the interest rate is 1% the public is holding (in cash and deposits) less liquid balances than they want for everyday transactions

The Money Supply

An example

The Money Demand



If the interest rate is **1%** the public is holding (in cash and deposits) **less liquid balances than they want** for everyday transactions