

i

M^s

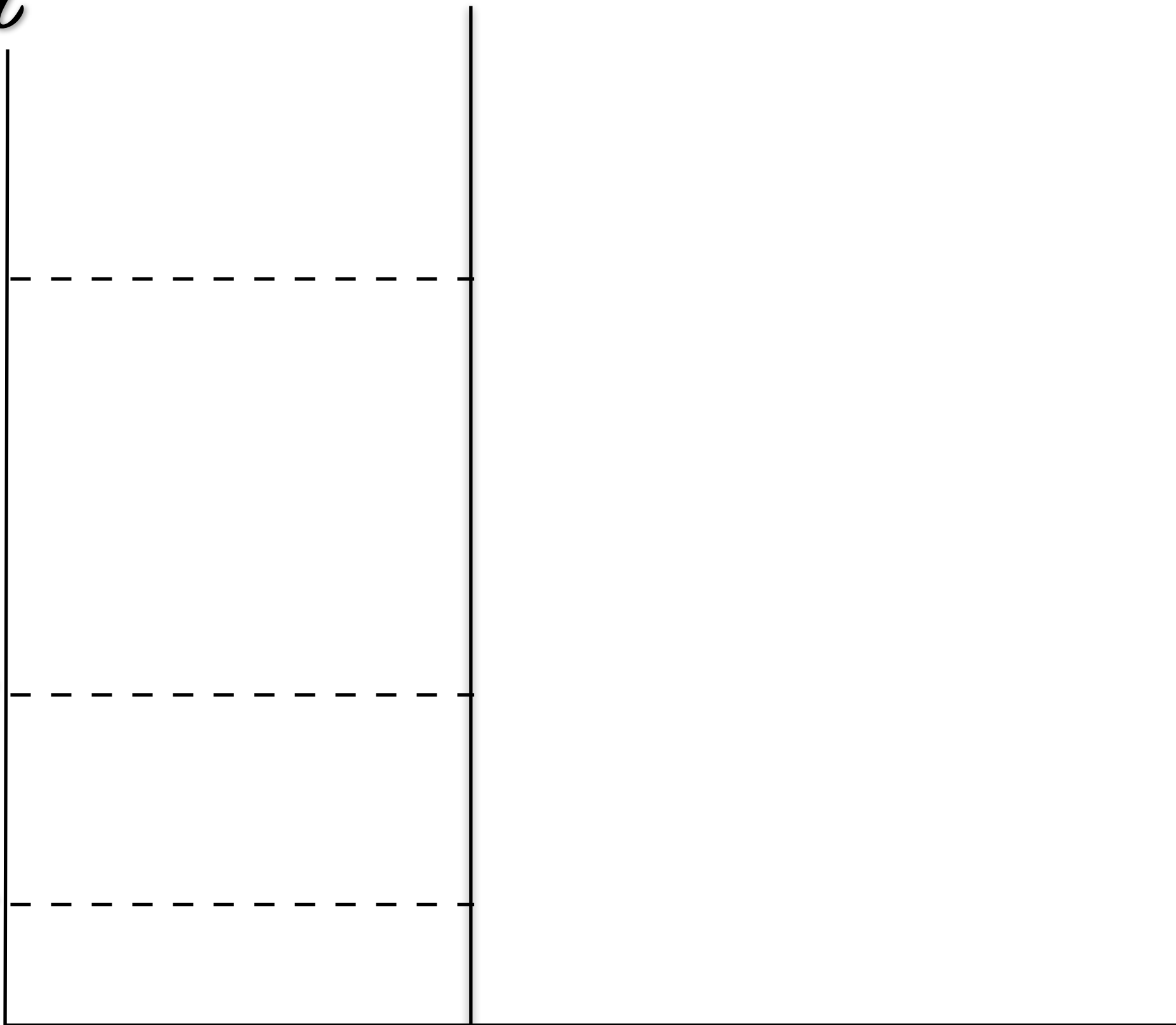
$i_0 = 6\%$

$i_1 = 3\%$

$i_2 = 1\%$

$M_0^s = 900b$

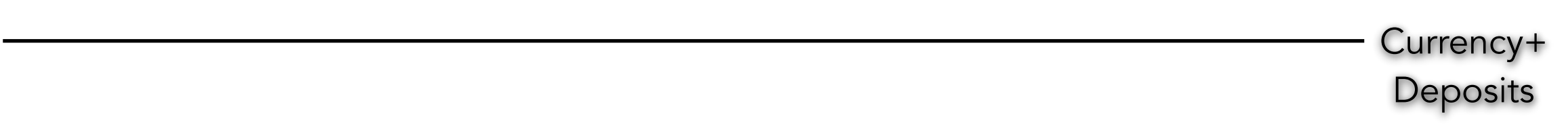
Currency +
Deposits



The Money Supply

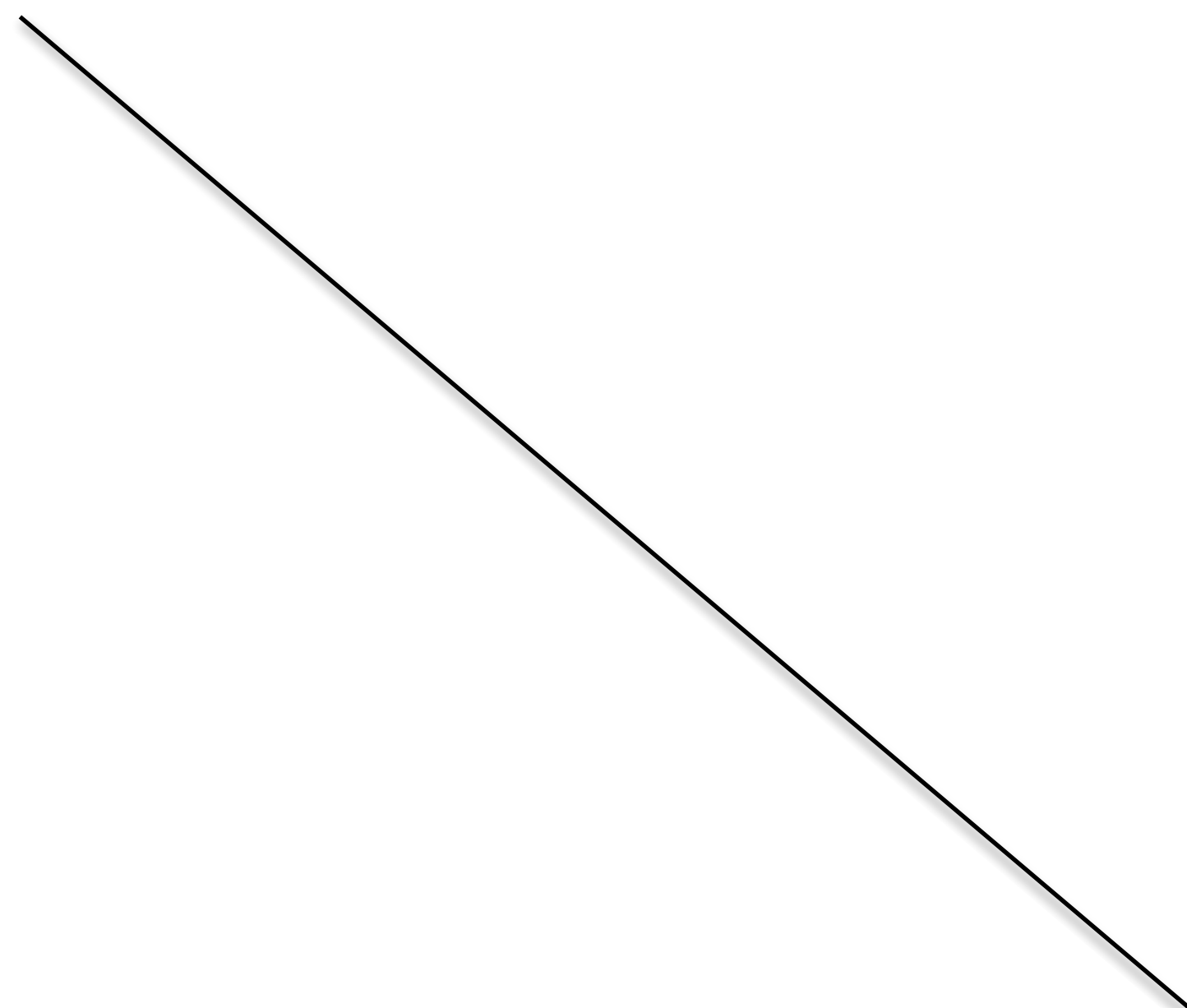
M^s is the amount of
currency + deposits
the public **actually**
holds = 900b

The Money
Supply is
determined by
the Fed



i



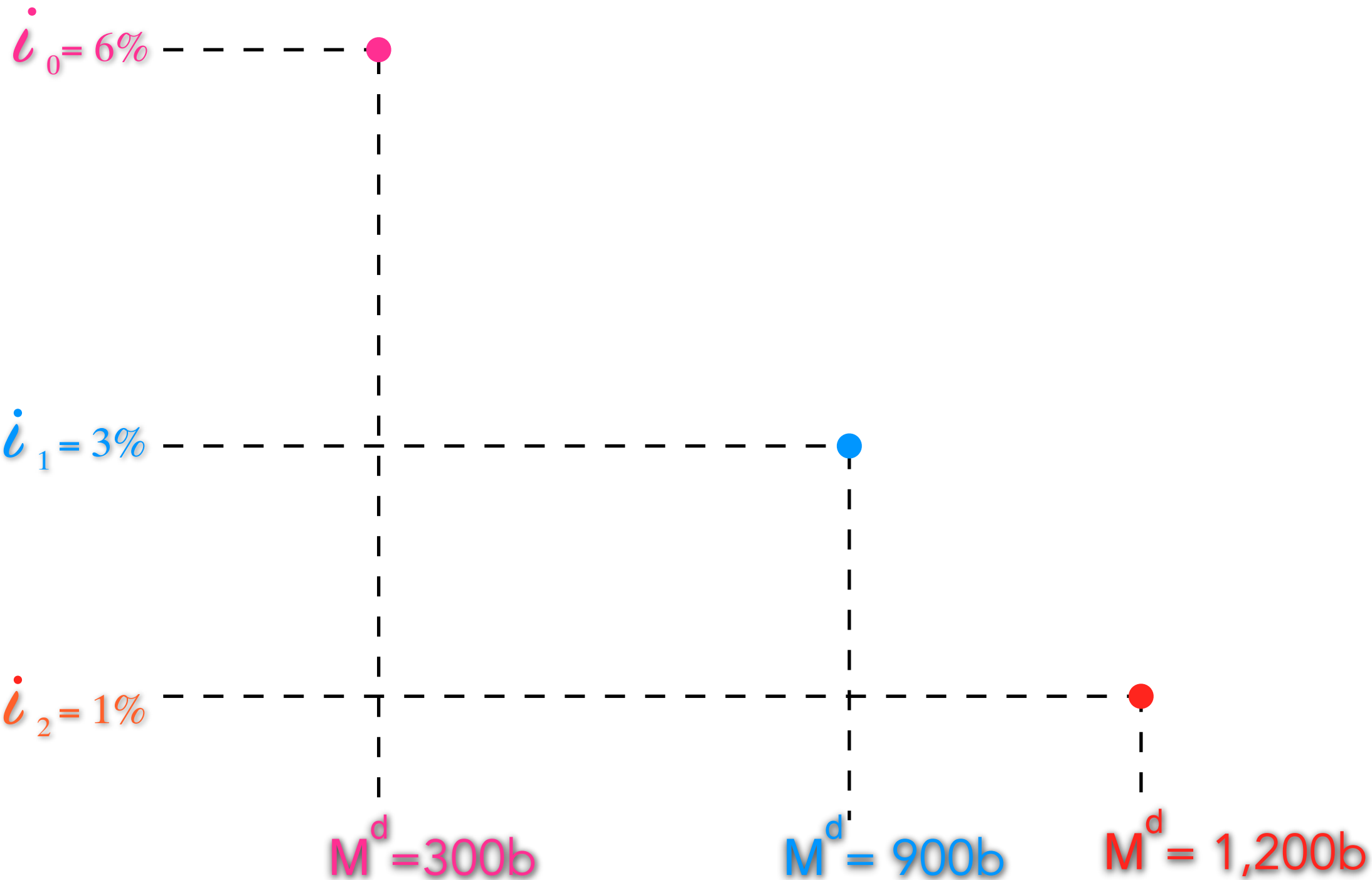


$$M^d(P_0, GDP_0)$$

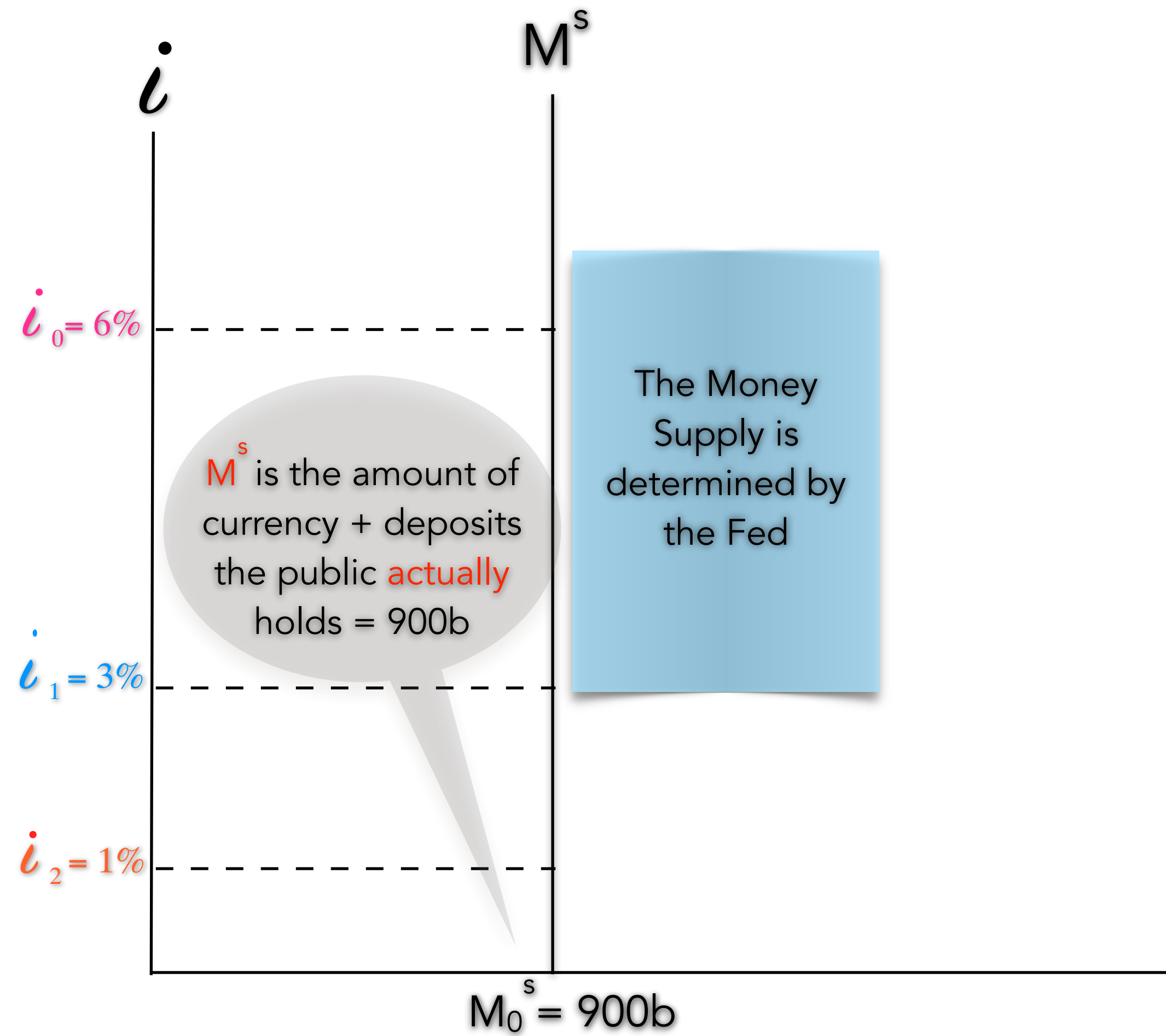
The Money Demand

The Money
Demand is
determined by the
public and
depends on:

Interest rate (i)
Price Level (P) and
GDP



The Money Supply



The Money Demand

