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

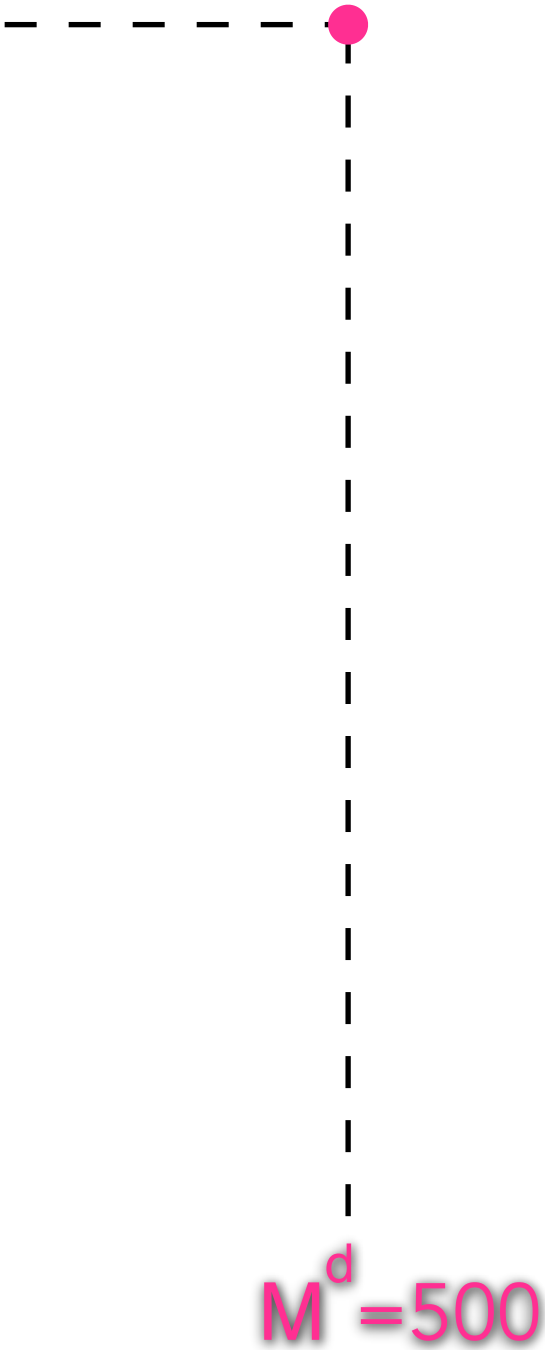
M^d

i

Interest Rate
on savings

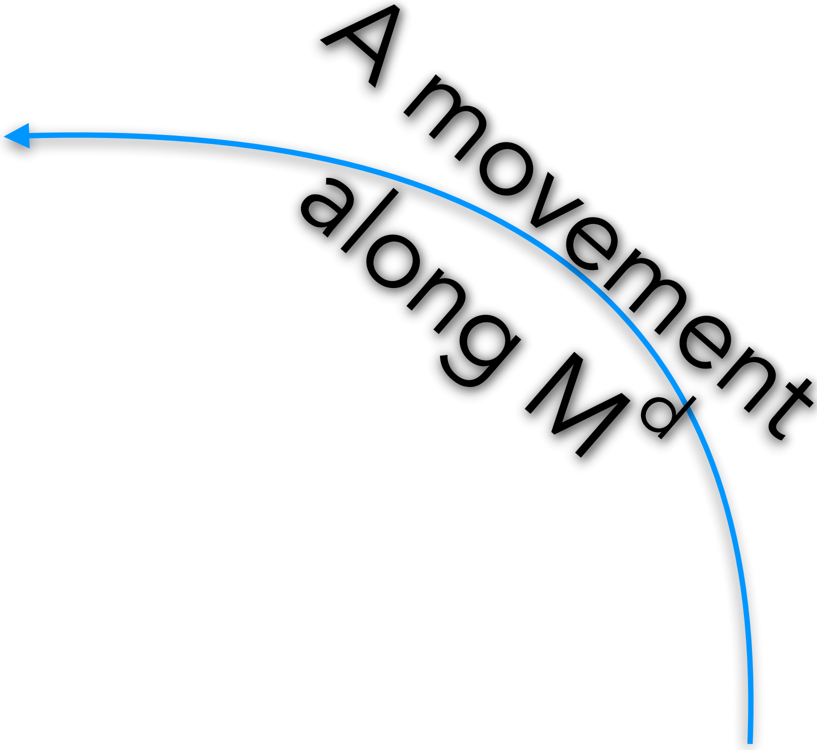
i_0

i_1


M^d=500


$M^d = 900$

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

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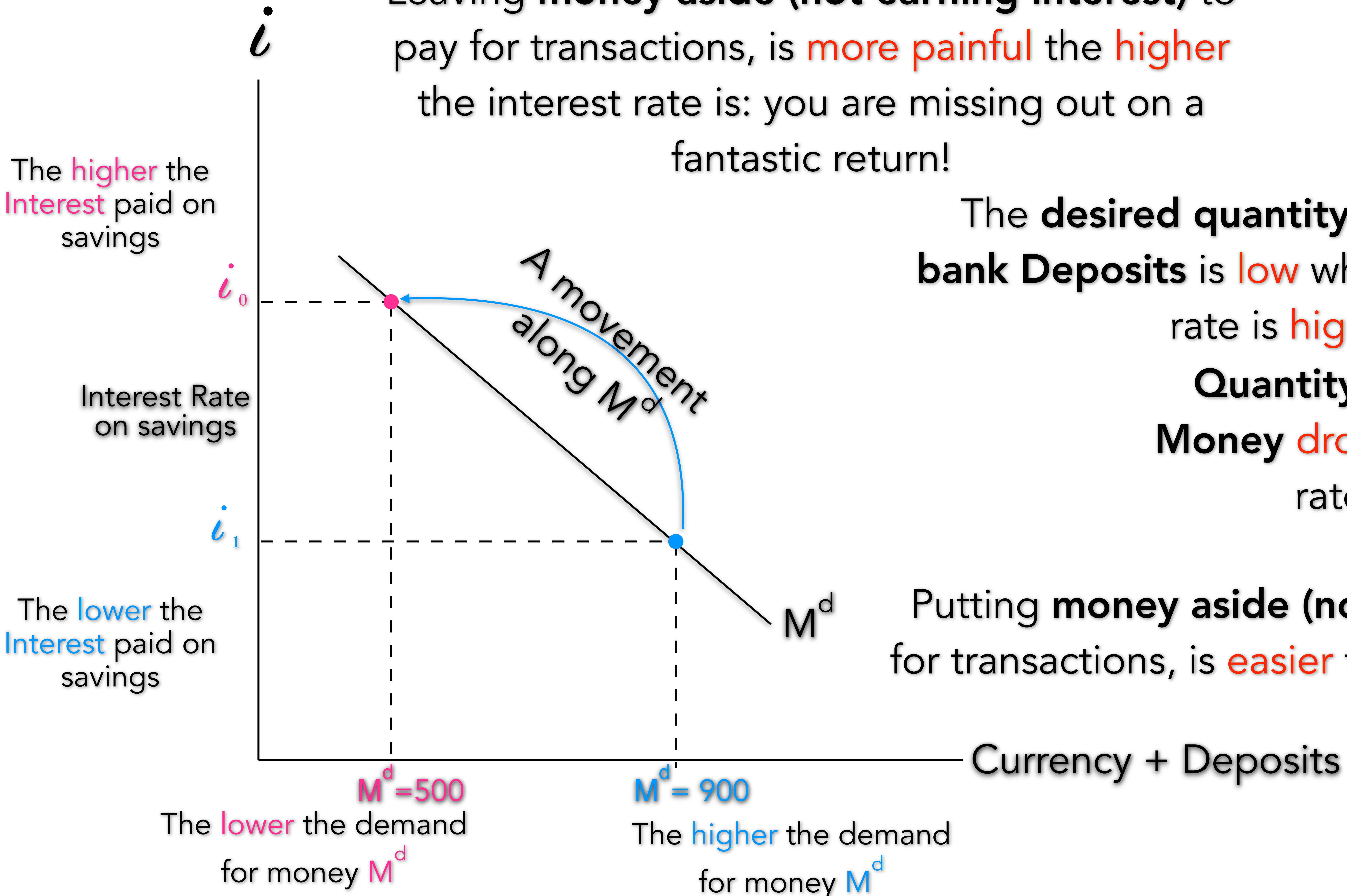

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What determines how much income is needed for transactions?