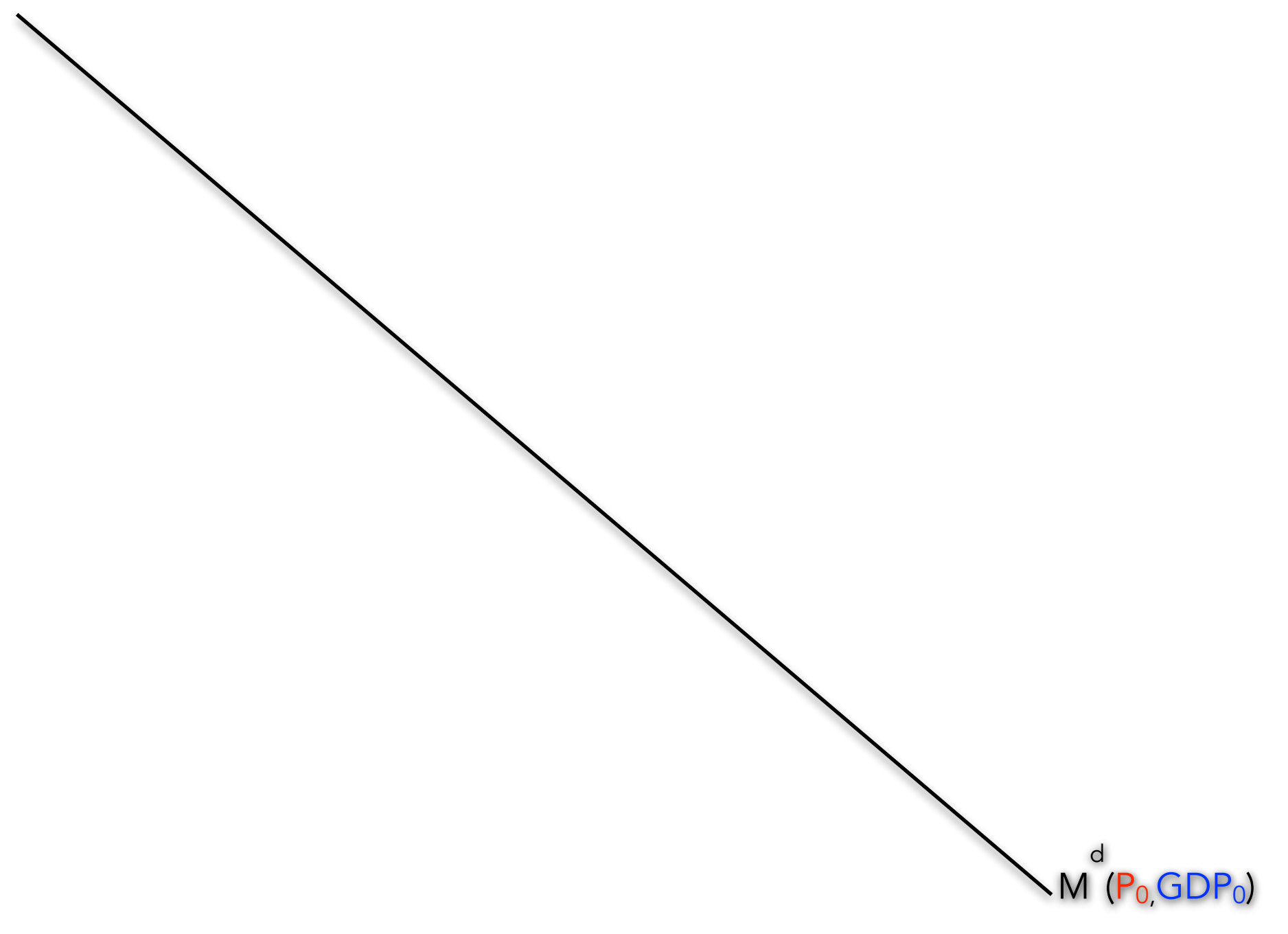


Equilibrium in the Money Market

Currency+
Deposits

i

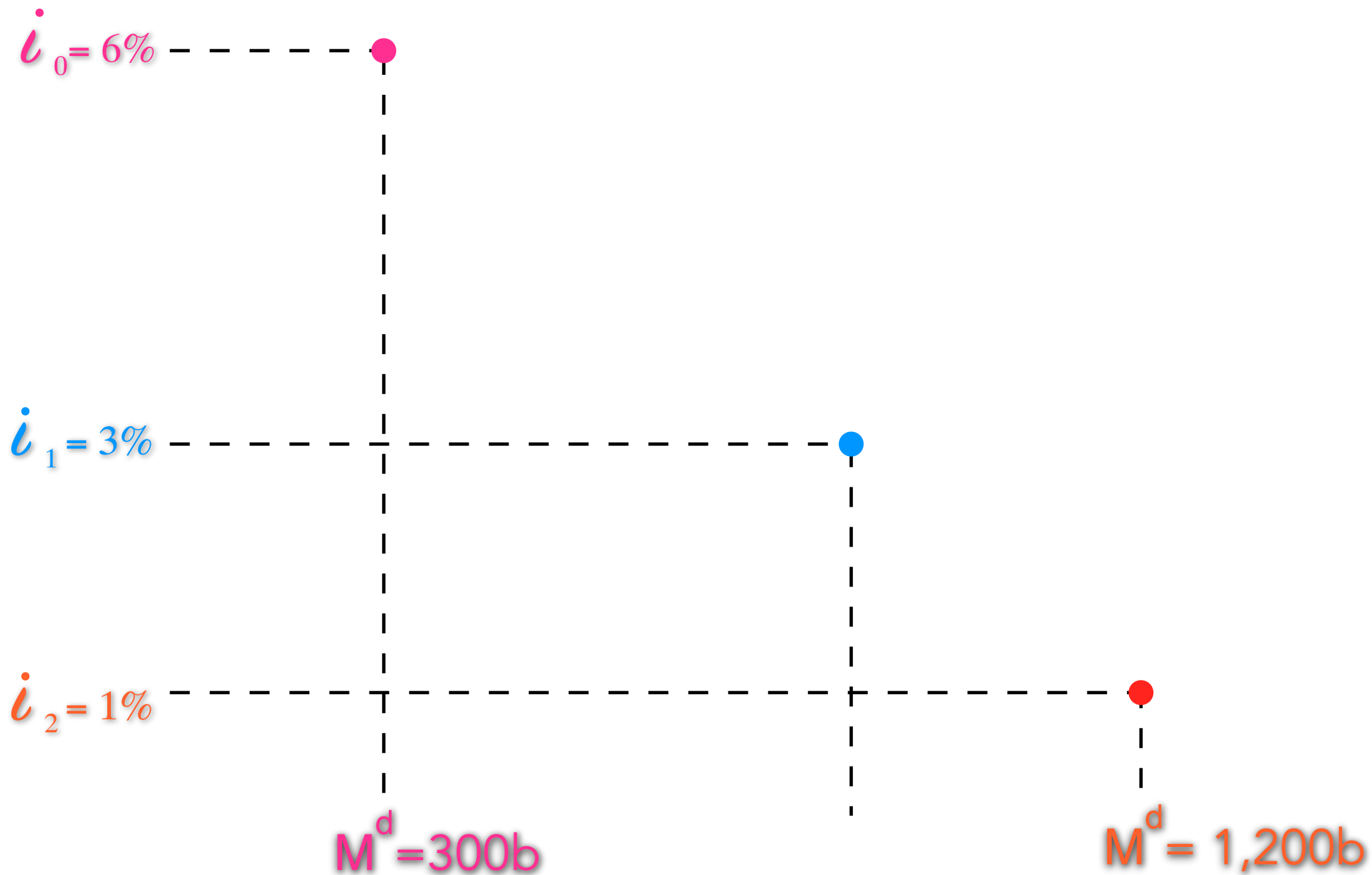




M^s



$M^s = 900b$



But the public is
actually holding

$$M^s = 900b$$

Short of liquid balances





The public will look for a way to get
liquid balances (cash and deposits)




The public will look for willing lenders
to get the necessary funds

To find willing lenders,
borrowers must offer a
higher interest rate



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

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

It will be difficult to find willing
lenders at 1% interest, because at 1%,
everyone wants to borrow (short of
liquid balances) money is scarce



W

















2















2

















U







2

































a







6





























U



































a











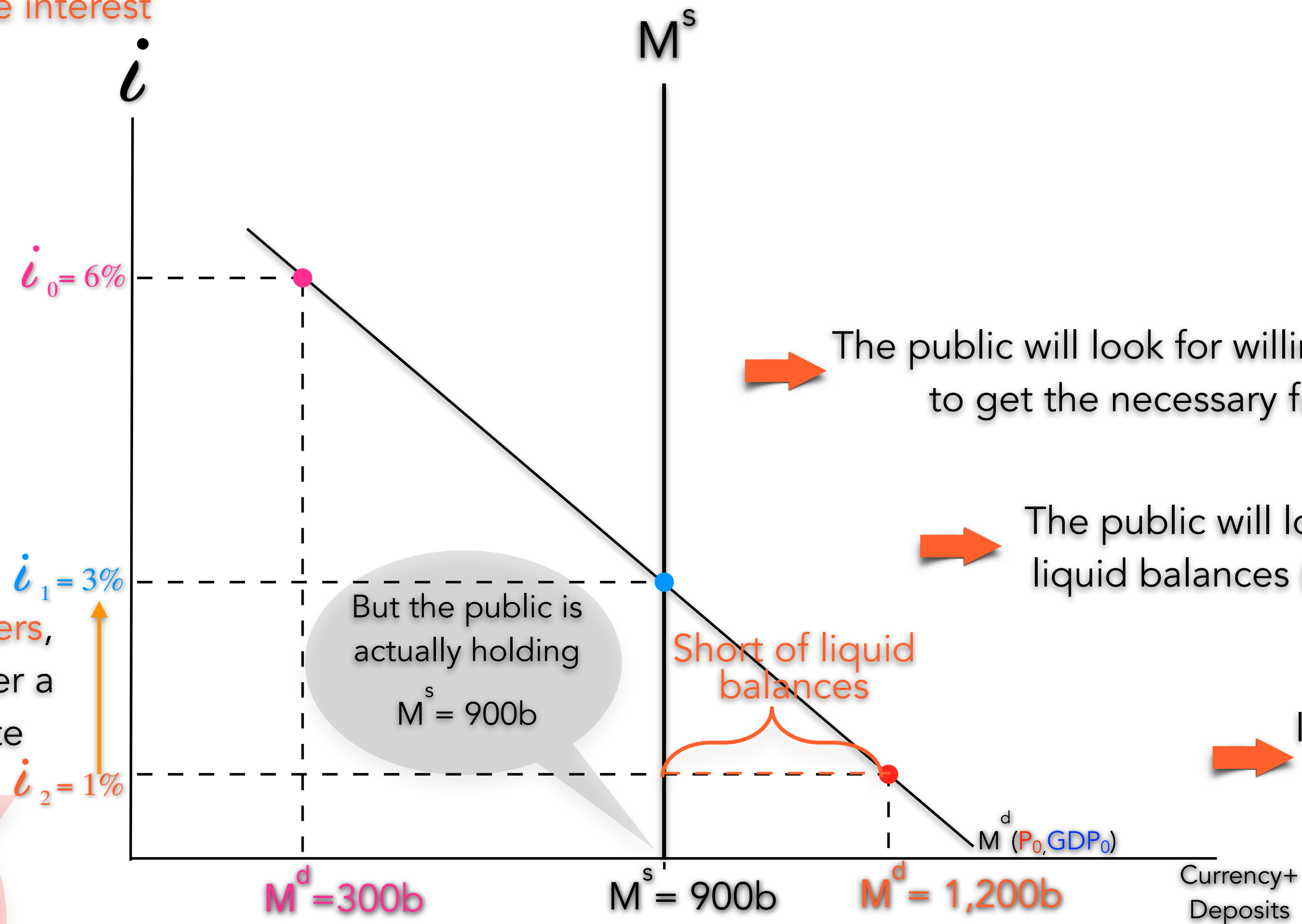


A large, stylized orange letter 'S' is centered on a light gray background. The letter is thick and has a slightly irregular, hand-drawn appearance. It is oriented vertically, with the top of the 'S' pointing towards the top of the frame. The background is a solid, light gray color.



Equilibrium in the Money Market

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



To find willing **lenders**, borrowers must offer a **higher** interest rate

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

The public will look for willing **lenders** to get the necessary funds

The public will look for a way to get liquid balances (cash and deposits)

It will be difficult to find willing lenders at **1%** interest, because at **1%**, everyone wants to borrow (short of liquid balances) **money is scarce**

Equilibrium in the Money Market