



D (from banks short of reserves)

Federal Funds

















F









R













The Federal Funds Market

A red speech bubble with a black outline and a drop shadow, pointing towards the bottom right. It contains the text "What determines the Demand for funds?".

What determines the
Demand for funds?

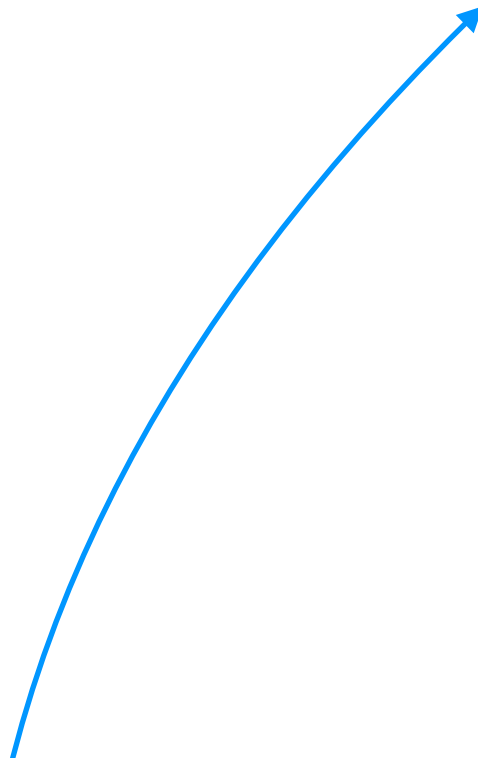
$$\text{Required Reserves} = r \times D$$



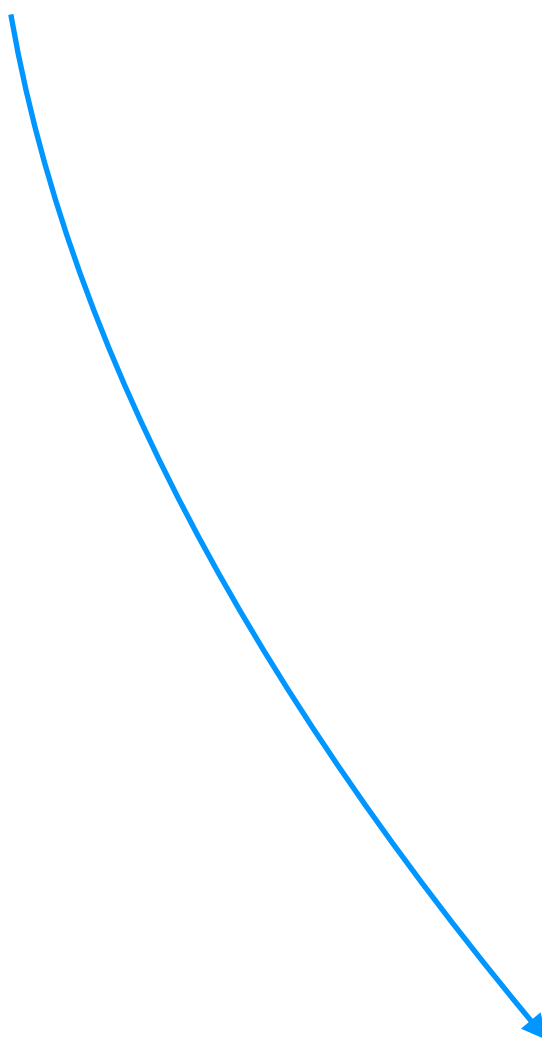
Deposits depend on how much the public needs to hold in liquid form to pay for transactions



How much the public needs
to hold in liquid form to pay
for transactions depends on
Prices and **GDP**



Required Reserves
Depend on
Prices and GDP





Demand for funds
depends on Prices and
GDP





P



G



P



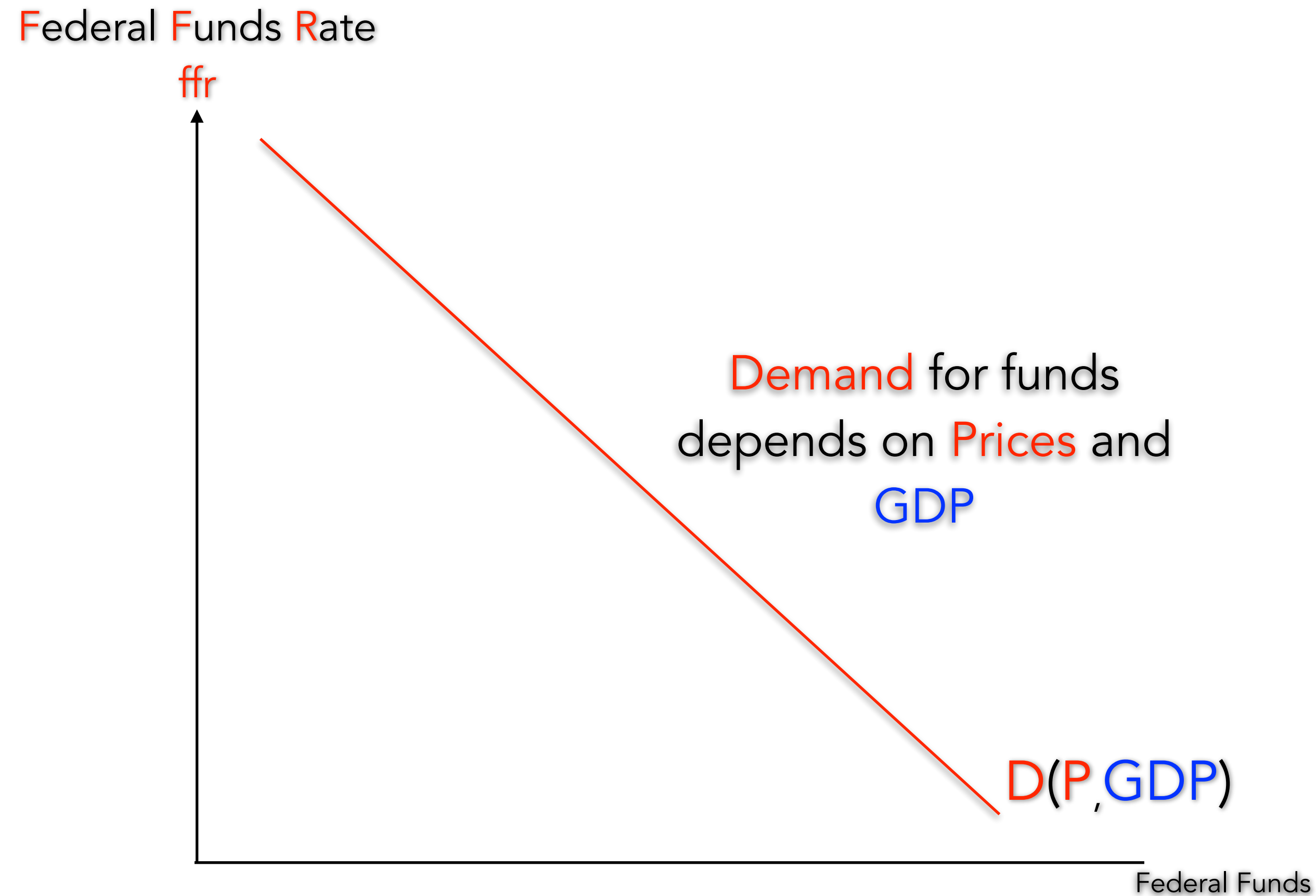


The larger **Deposits** are, the
larger the amount of **Required
Reserves** banks must hold

Federal Funds Rate

ffr

The Federal Funds Market



Required Reserves
Depend on
Prices and GDP

$$\text{Required Reserves} = r \times D$$

The larger Deposits are, the larger the amount of Required Reserves banks must hold

Deposits depend on how much the public needs to hold in liquid form to pay for transactions

How much the public needs to hold in liquid form to pay for transactions depends on Prices and GDP