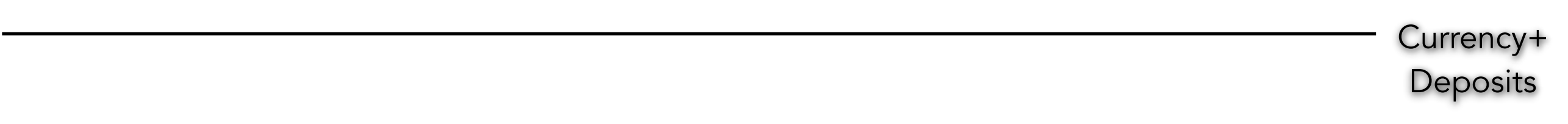
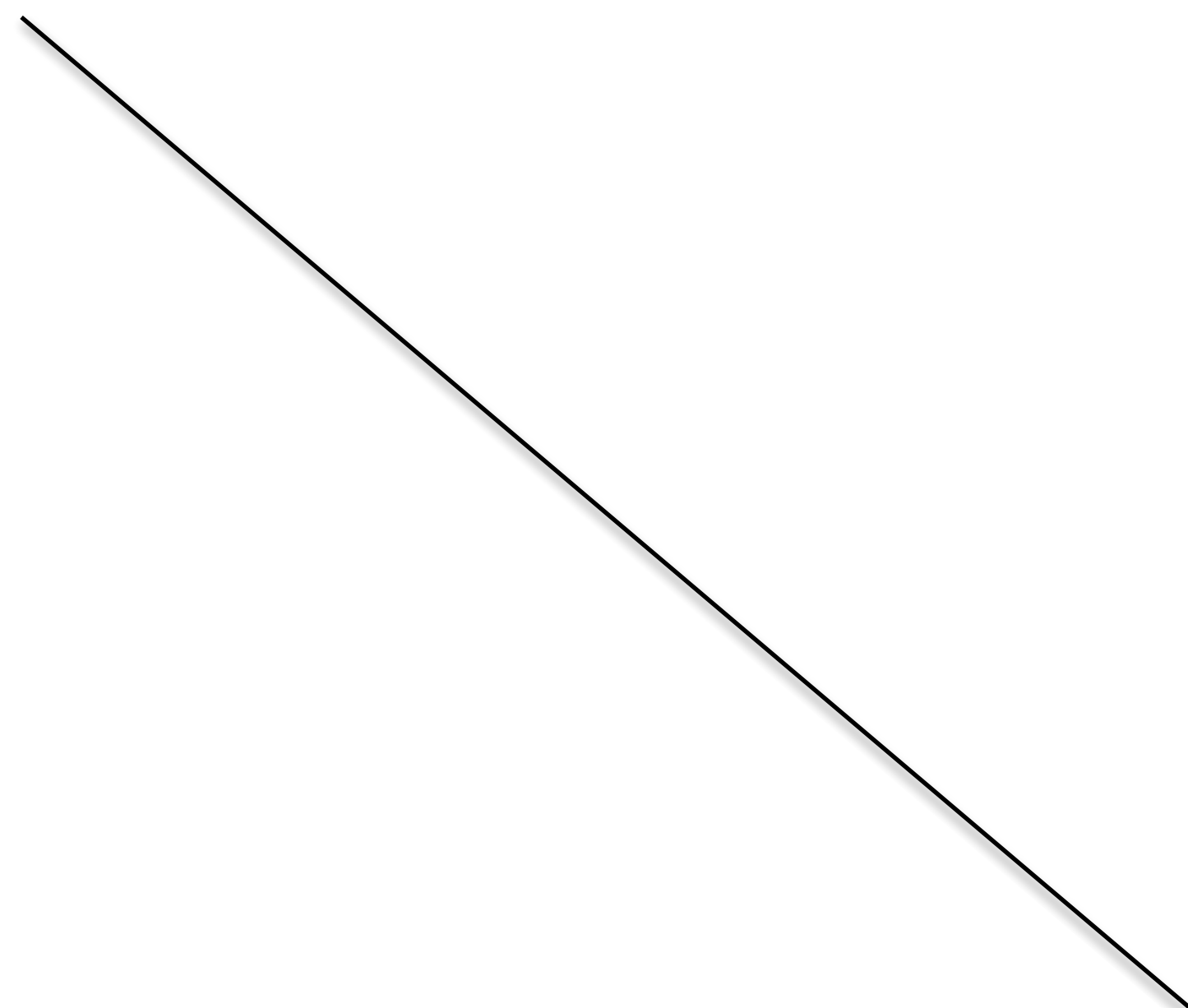


Equilibrium in the Money Market



i



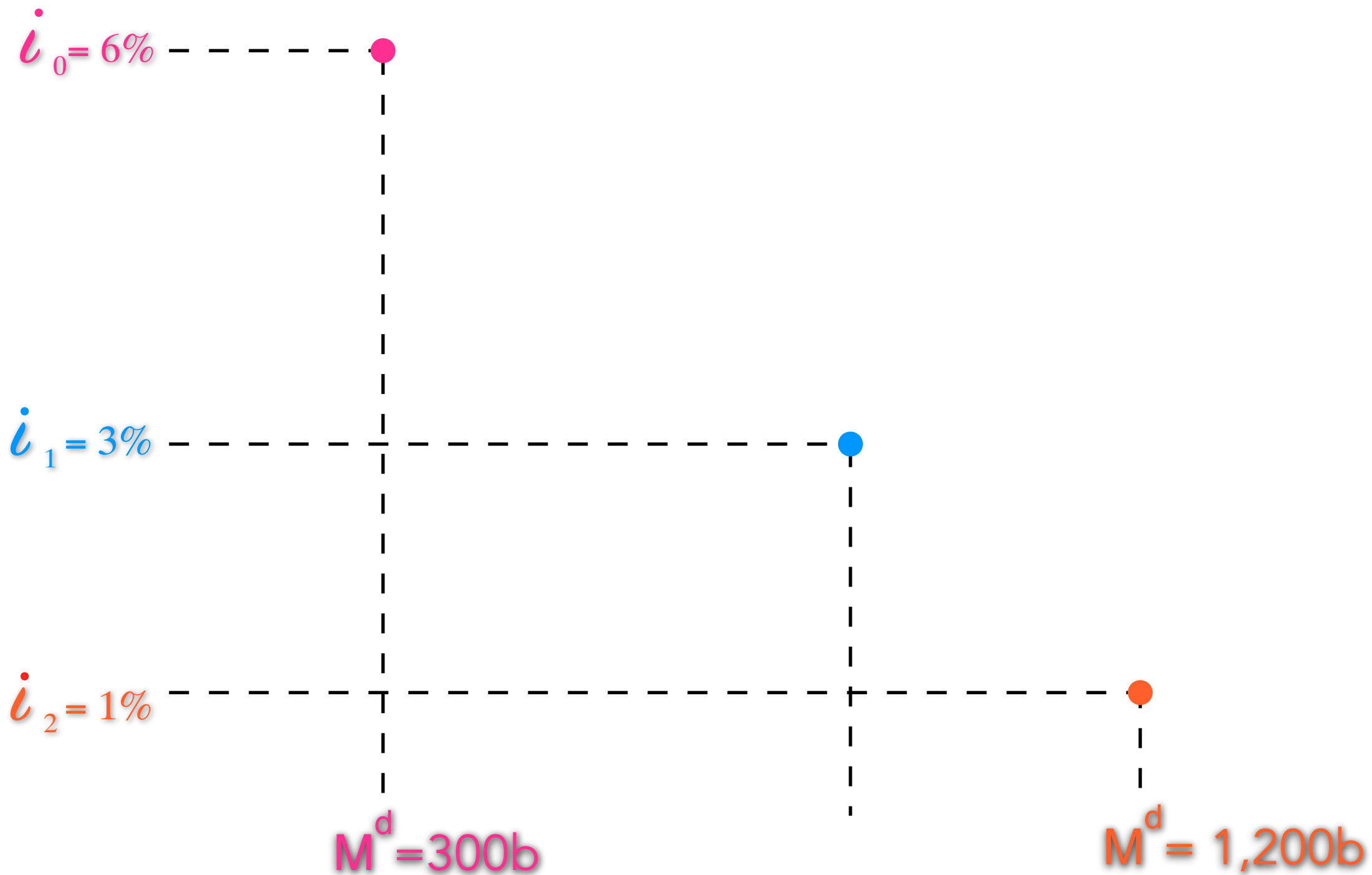


$$M^d(P_0, GDP_0)$$

M^s



$M^s = 900b$



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

But the public is
actually holding

$$M^s = 900b$$

excess liquid balances




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 will look for a way to earn
interest on these excess idle balances





The public will look for **borrowers**
willing to pay interest on these funds

It will be difficult to find willing
borrowers at 6% interest, because at
6%, everyone wants to lend (excess
liquid balances) money is plentiful



To find willing borrowers,
lenders must drop the
interest rate



W

















2























U







2



3





































U



3





























U



































a











a

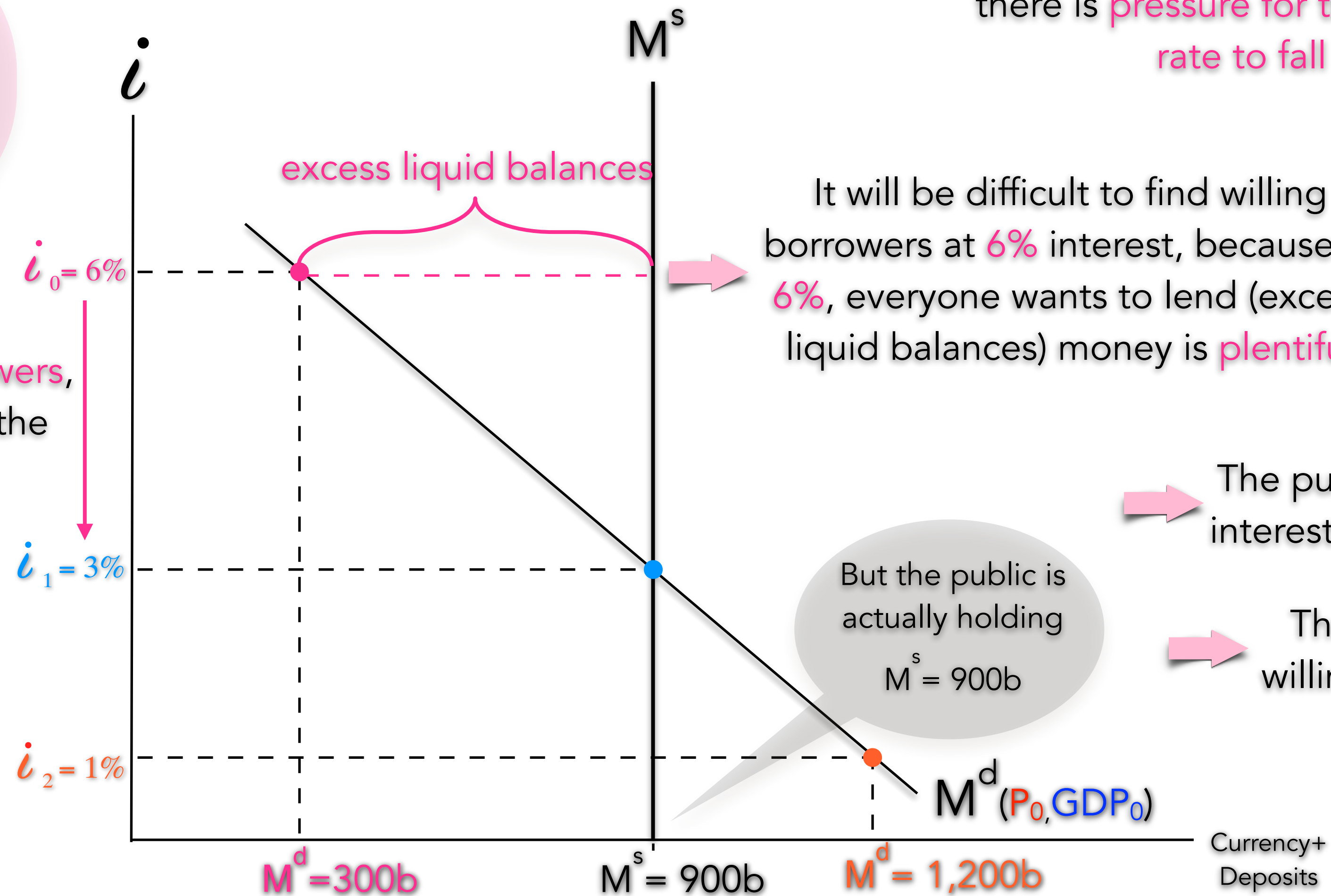




Equilibrium in the Money Market

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

To find willing **borrowers**, lenders must **drop** the interest rate



When there are excess liquid balances, **money is plentiful** and there is **pressure for the interest rate to fall**

It will be difficult to find willing borrowers at 6% interest, because at 6%, everyone wants to lend (excess liquid balances) money is **plentiful**

→ The public will look for a way to earn interest on these excess idle balances

→ The public will look for **borrowers** willing to pay interest on these funds