Currency + Deposits

Fed buys Bonds:

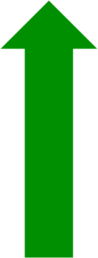
M^s shifts right

$$M^s = \text{Deposits} + \text{Currency}$$

Money Supply M^s = Deposits + Currency

Reserves

Loans



Deposits

M^s

Interest Rate to the Public

The Money Market

$$M^s = 900$$

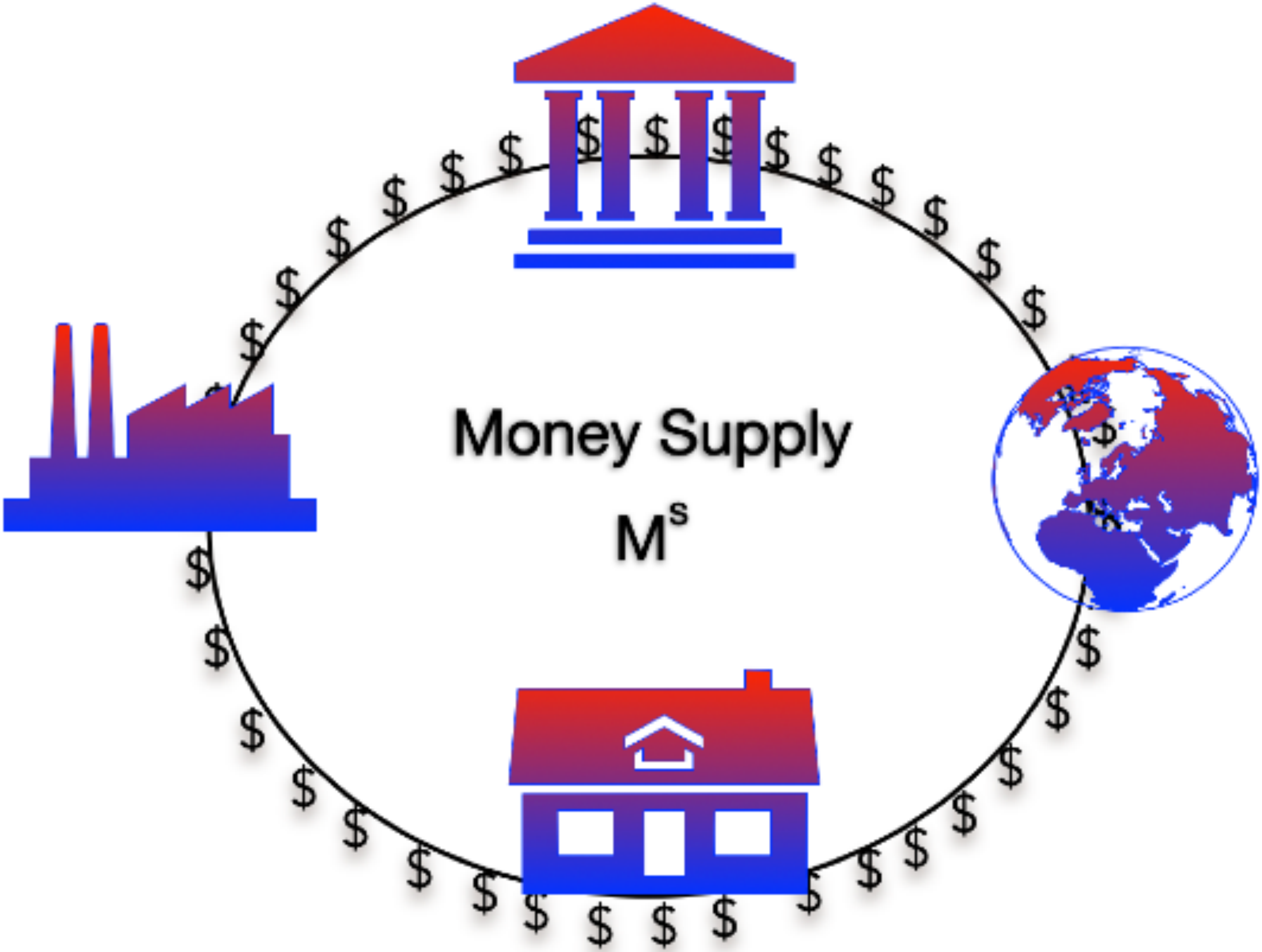
$$M^{s} = 1000$$

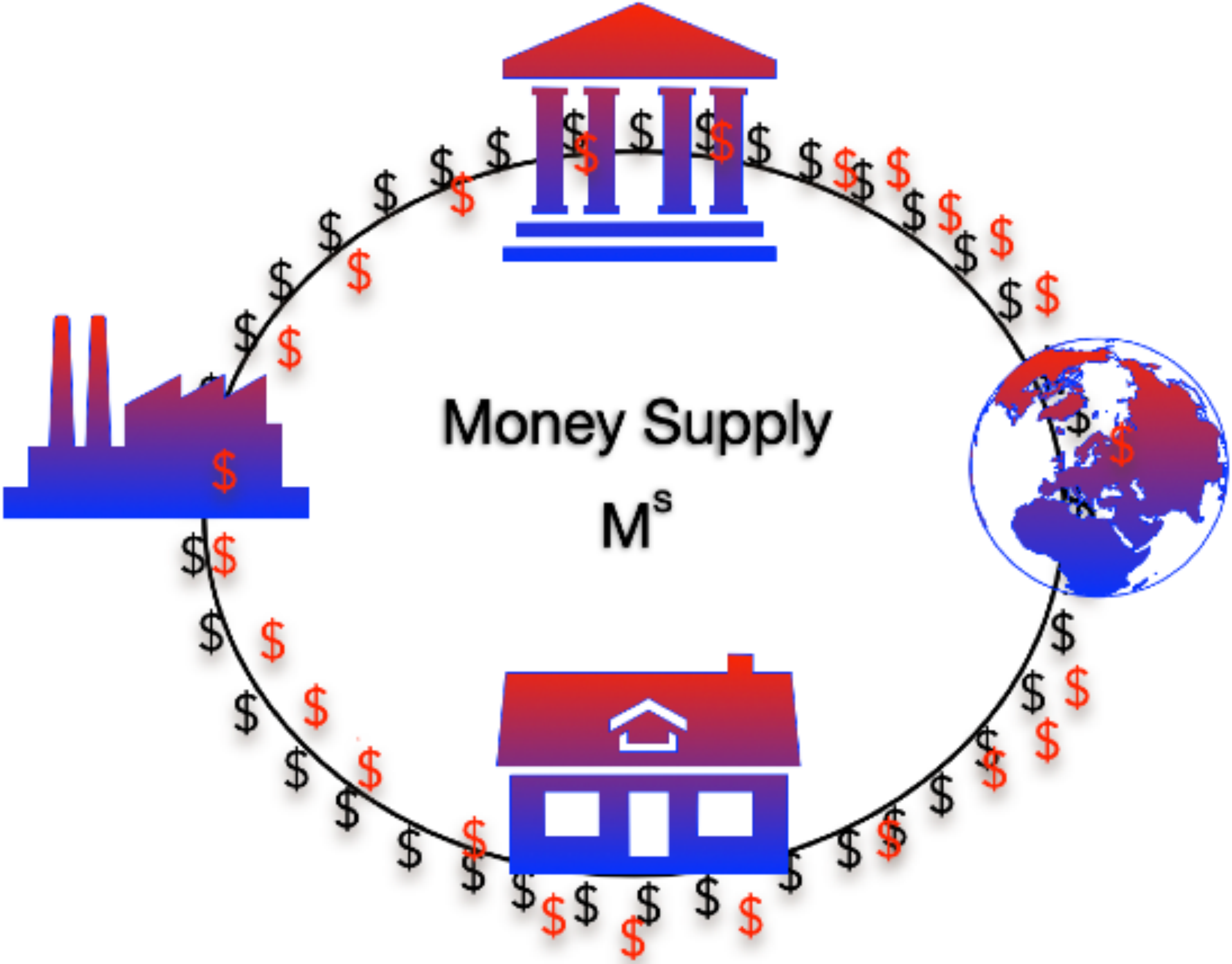
A market is any situation in which buyers and sellers come together to bargain for a price

In the Money market, lenders and borrowers come together to bargain over the interest rate

$$M_0^s$$

$$M_1^s$$


Money Supply
M^s


Money Supply
M^s

$$= 900$$

$=1,000$

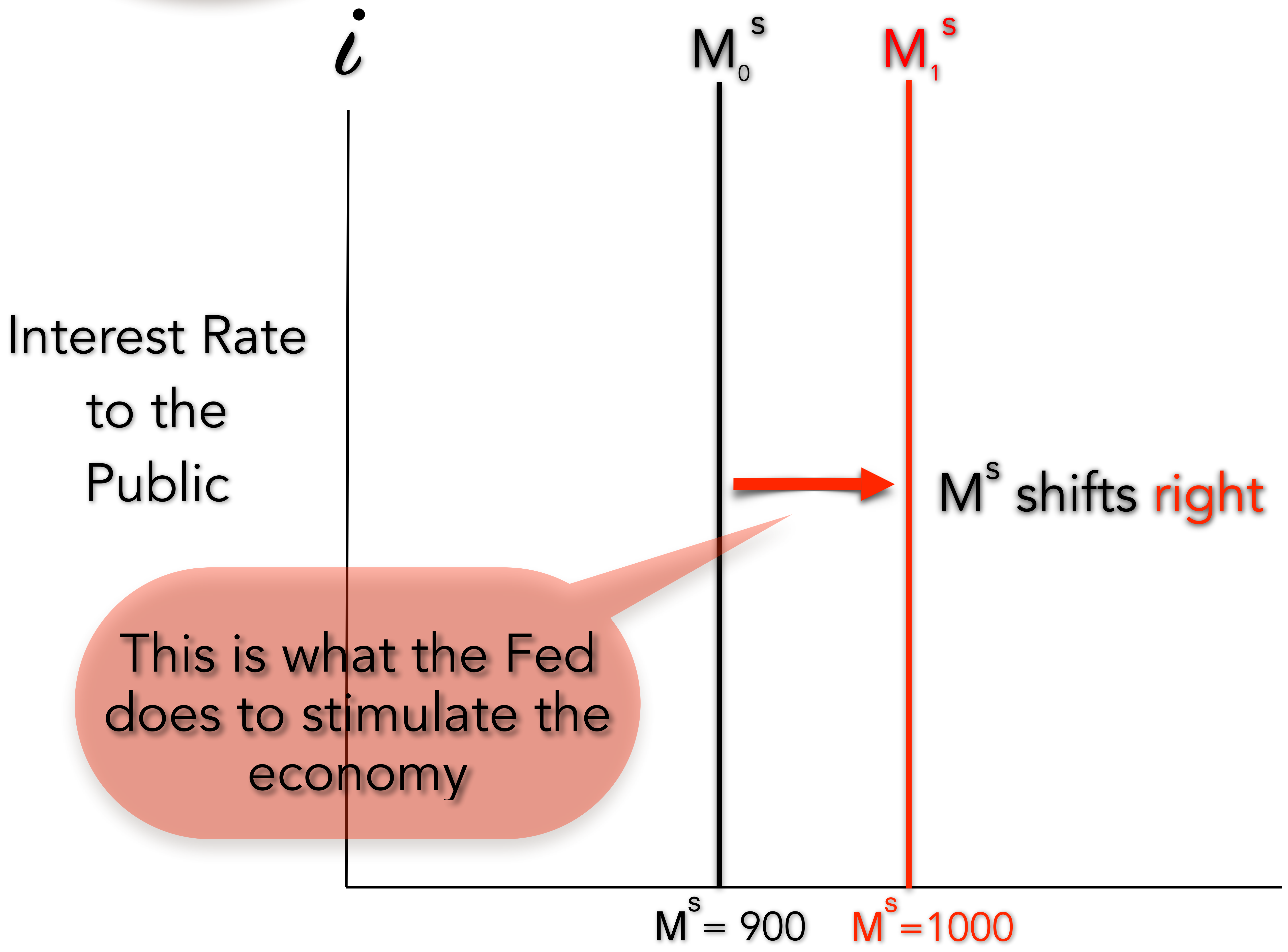
This is what the Fed does to stimulate the economy *i*

The Money Market

A market is any situation in which buyers and sellers come together to bargain for a price

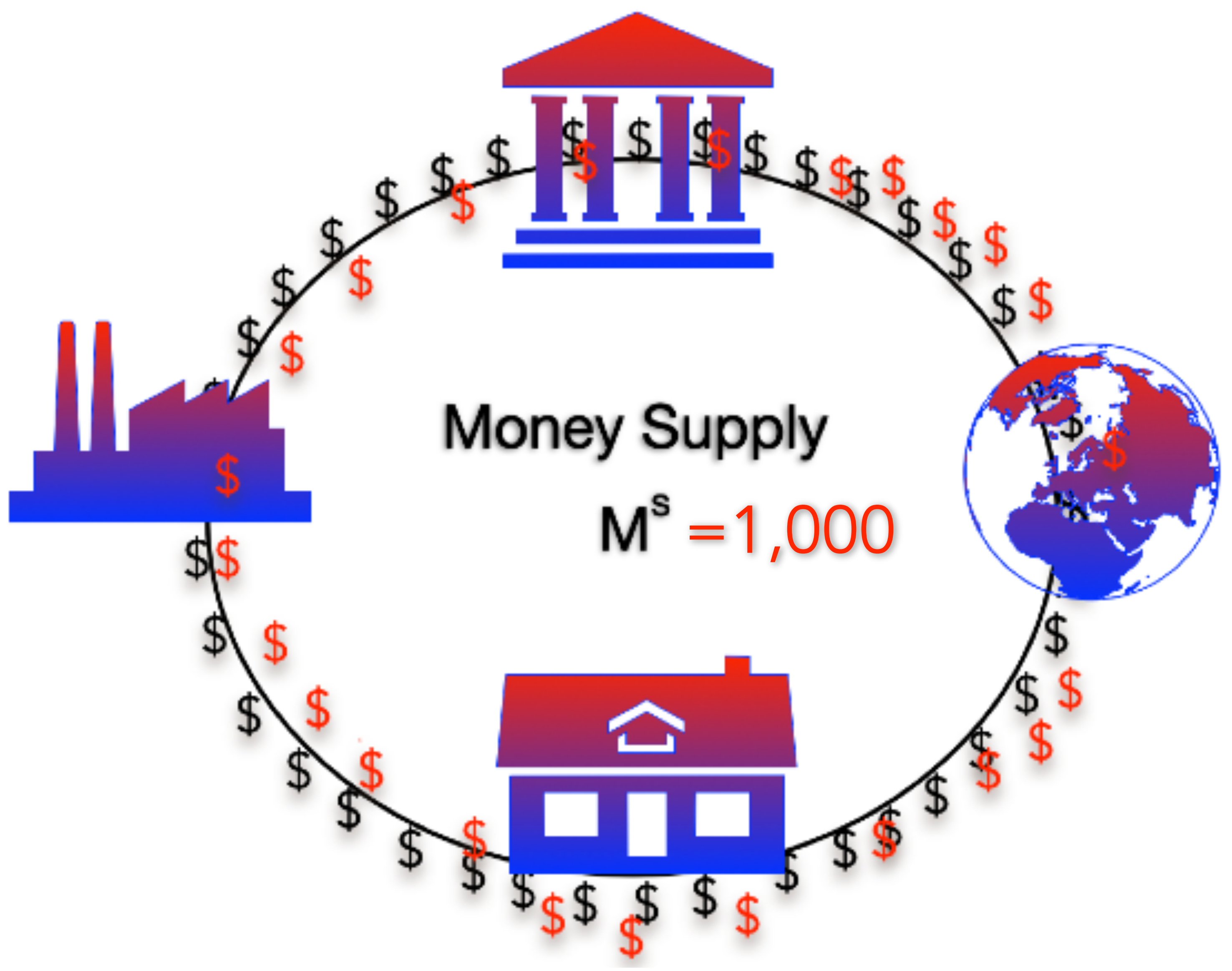
In the Money market, lenders and borrowers come together to bargain over the interest rate

Money Supply M^s= Deposits + Currency



This is what the Fed does to stimulate the economy

Fed buys Bonds:



The Money Market