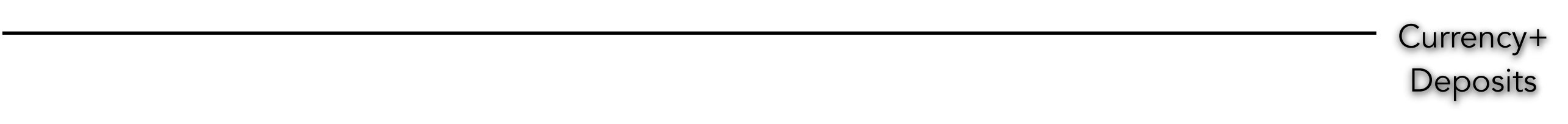


If the interest rate is above
equilibrium, there are
excess liquid balances,
money is plentiful and
there is pressure for the
interest rate to fall

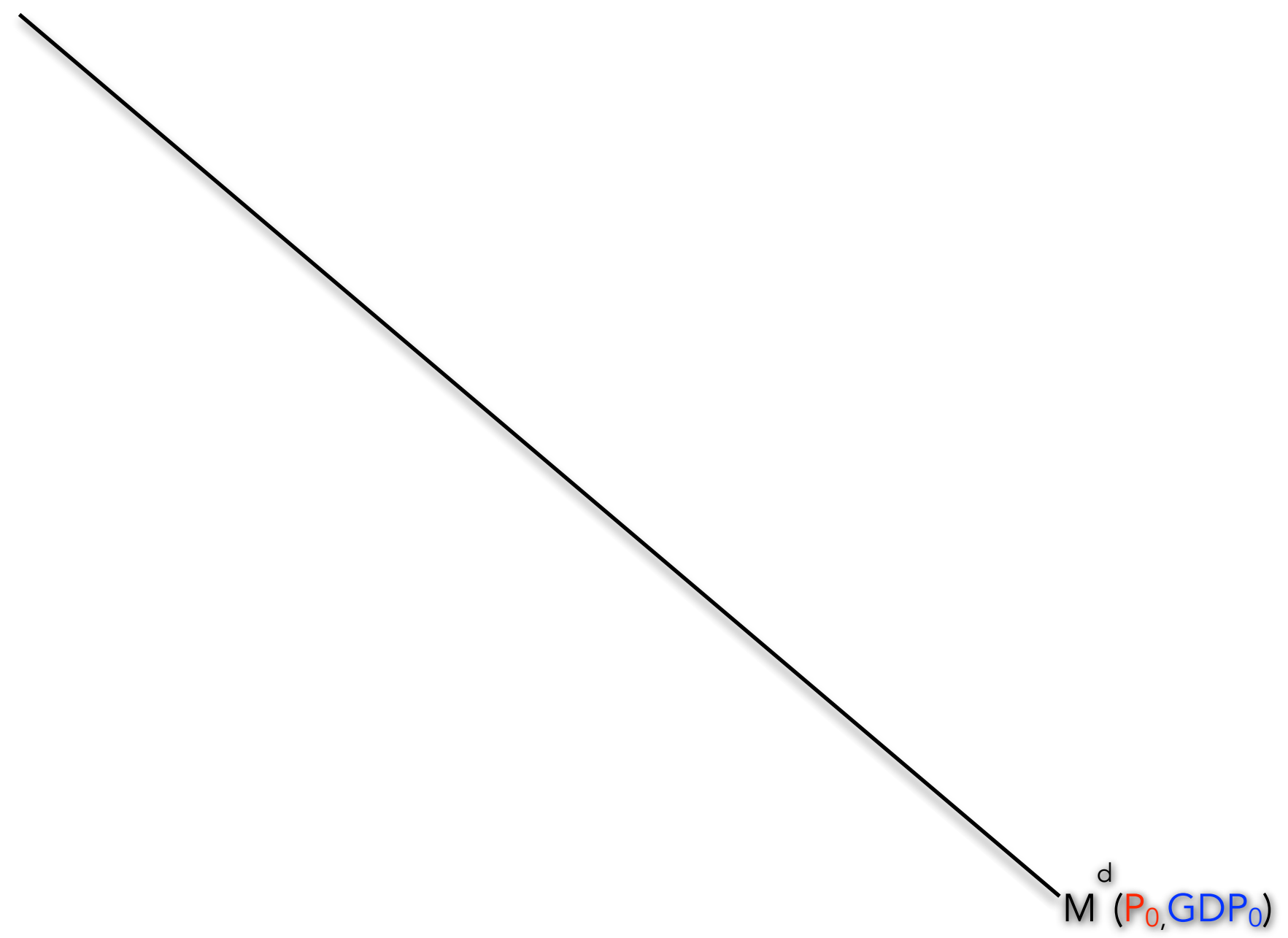


Equilibrium in the Money Market



i

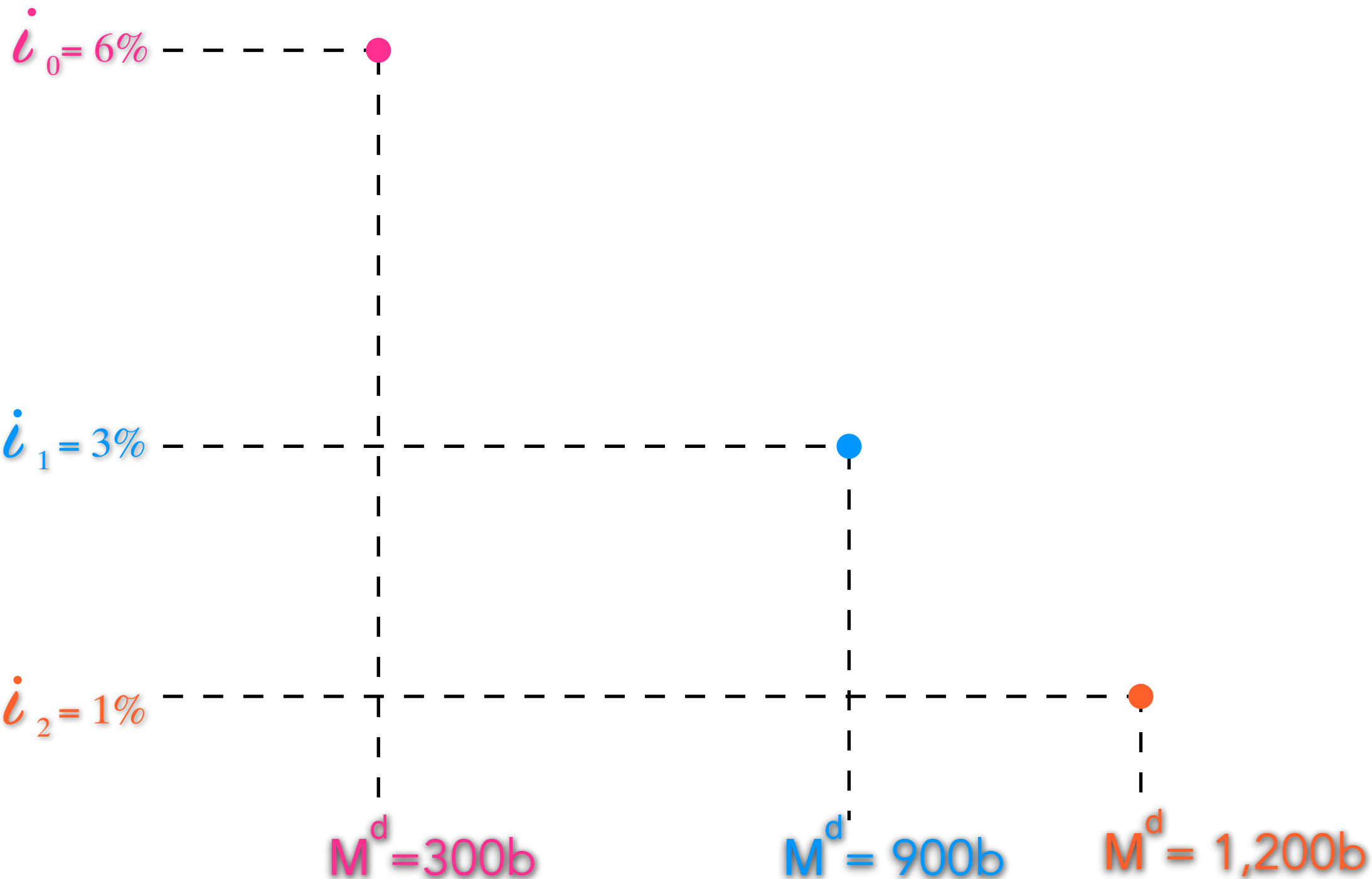





M^s



$M^s = 900b$



If the interest rate is 3%,
the amount of currency +
deposits the public is
actually holding is exactly
what the public needs to
hold for transactions

The public will not need to look for lenders
 or borrowers and thus there will be no
reason for the interest rate to change

W





















V









3

























U













U









W













2













3





2











S

W









W











V









































U







b





U



We can safely assume that the Money



Market will eventually settle at

equilibrium

The Money Market is in
equilibrium at a 3%
interest rate

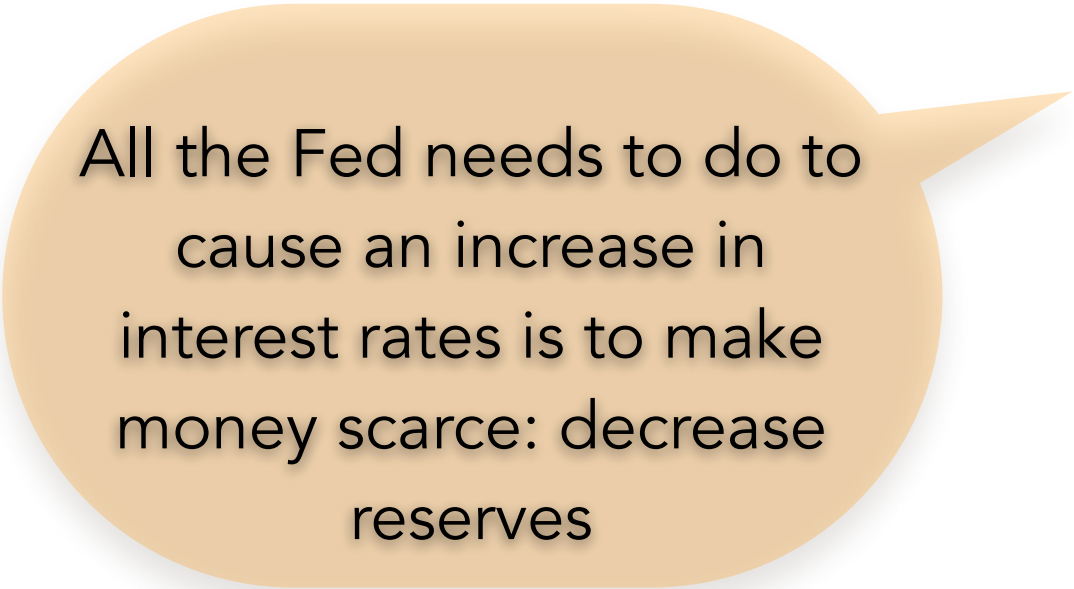
$$i_e = 3\%$$

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



A pink speech bubble with a white drop shadow, pointing towards the bottom right. Inside the bubble is black text.

All the Fed needs to do to
cause a decrease in
interest rates is to make
money plentiful: inject
reserves



All the Fed needs to do to
cause an increase in
interest rates is to make
money scarce: decrease
reserves

Whether money is scarce or plentiful, the public will engage in transactions which will move the interest rate to equilibrium

Equilibrium in the Money Market

All the Fed needs to do to cause a decrease in interest rates is to make money plentiful: inject reserves

Whether money is scarce or plentiful, the public will engage in transactions which will move the interest rate to **equilibrium**

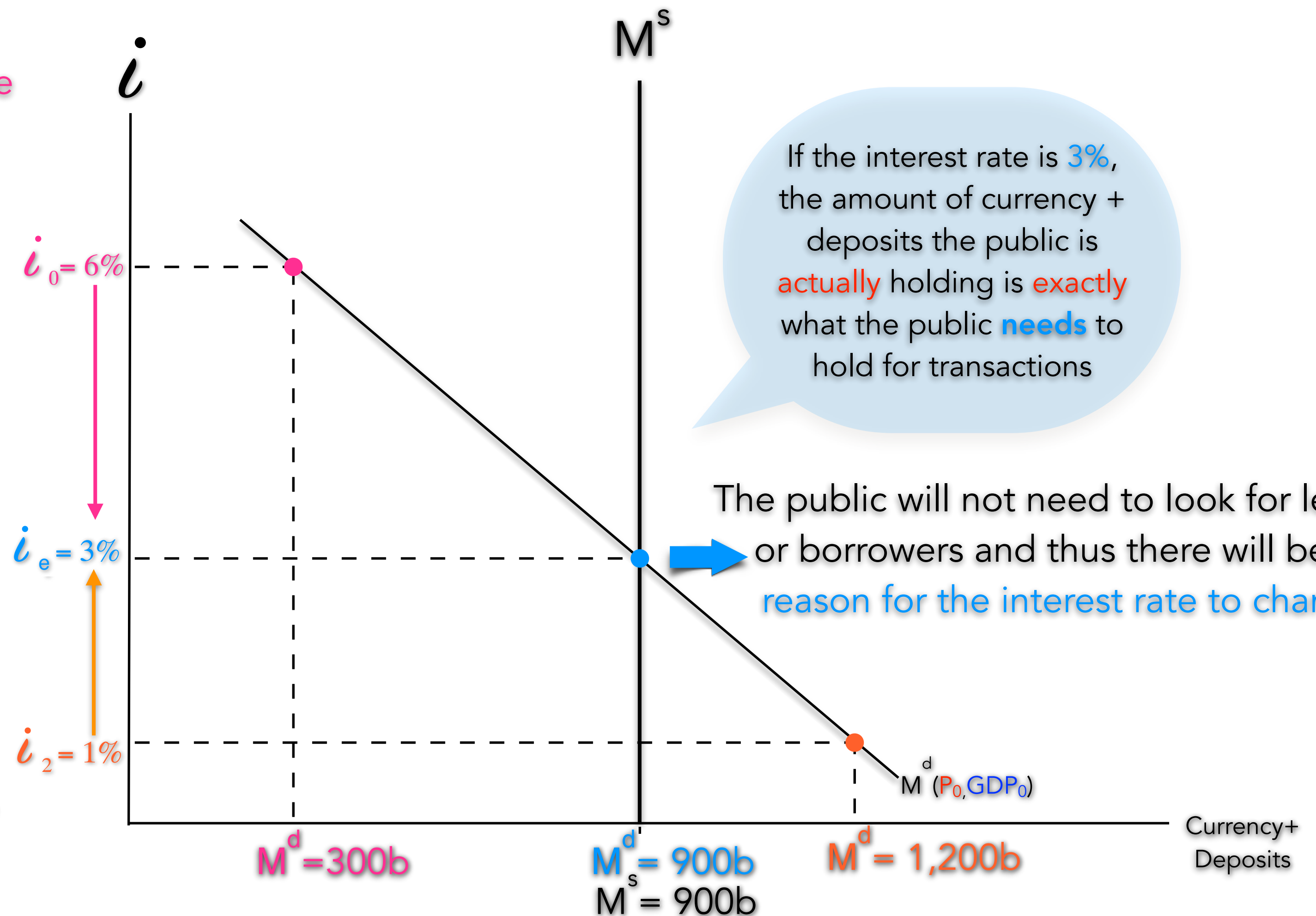
We can safely assume that the Money Market will eventually settle at **equilibrium**

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

The Money Market is in **equilibrium** at a **3%** interest rate

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

All the Fed needs to do to cause an increase in interest rates is to make money scarce: decrease reserves



If the interest rate is **3%**, the amount of currency + deposits the public is **actually** holding is **exactly** what the public **needs** to hold for transactions

The public will not need to look for lenders or borrowers and thus there will be **no reason for the interest rate to change**