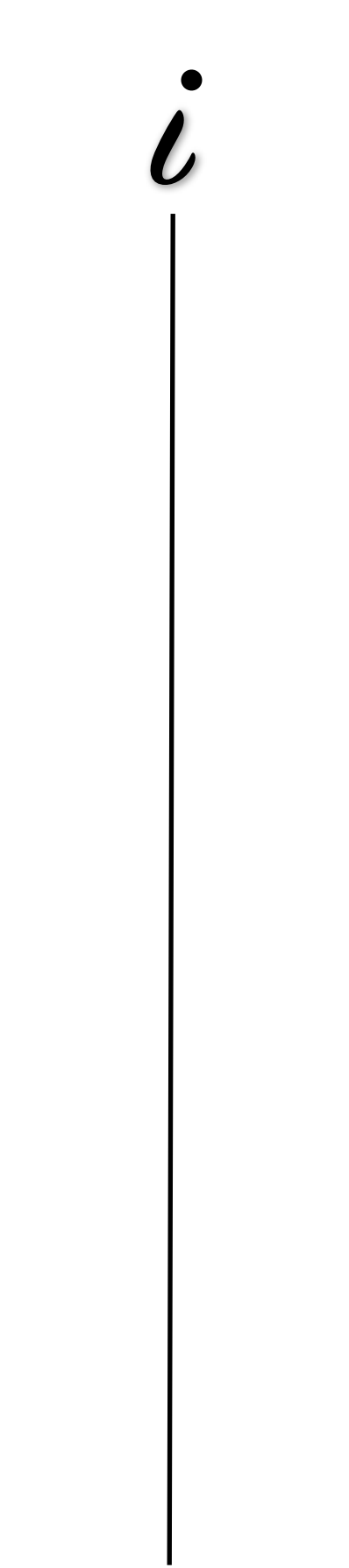
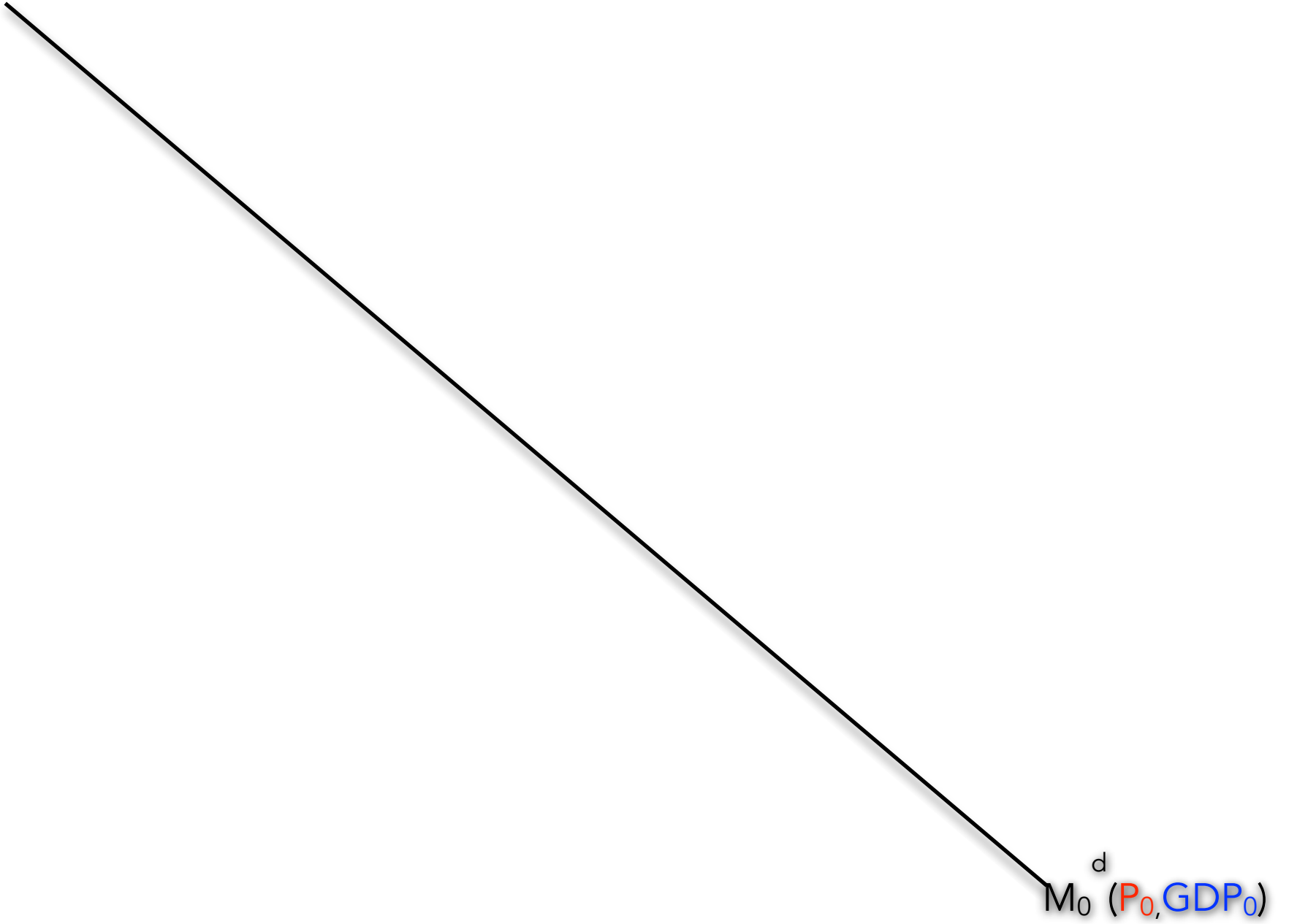
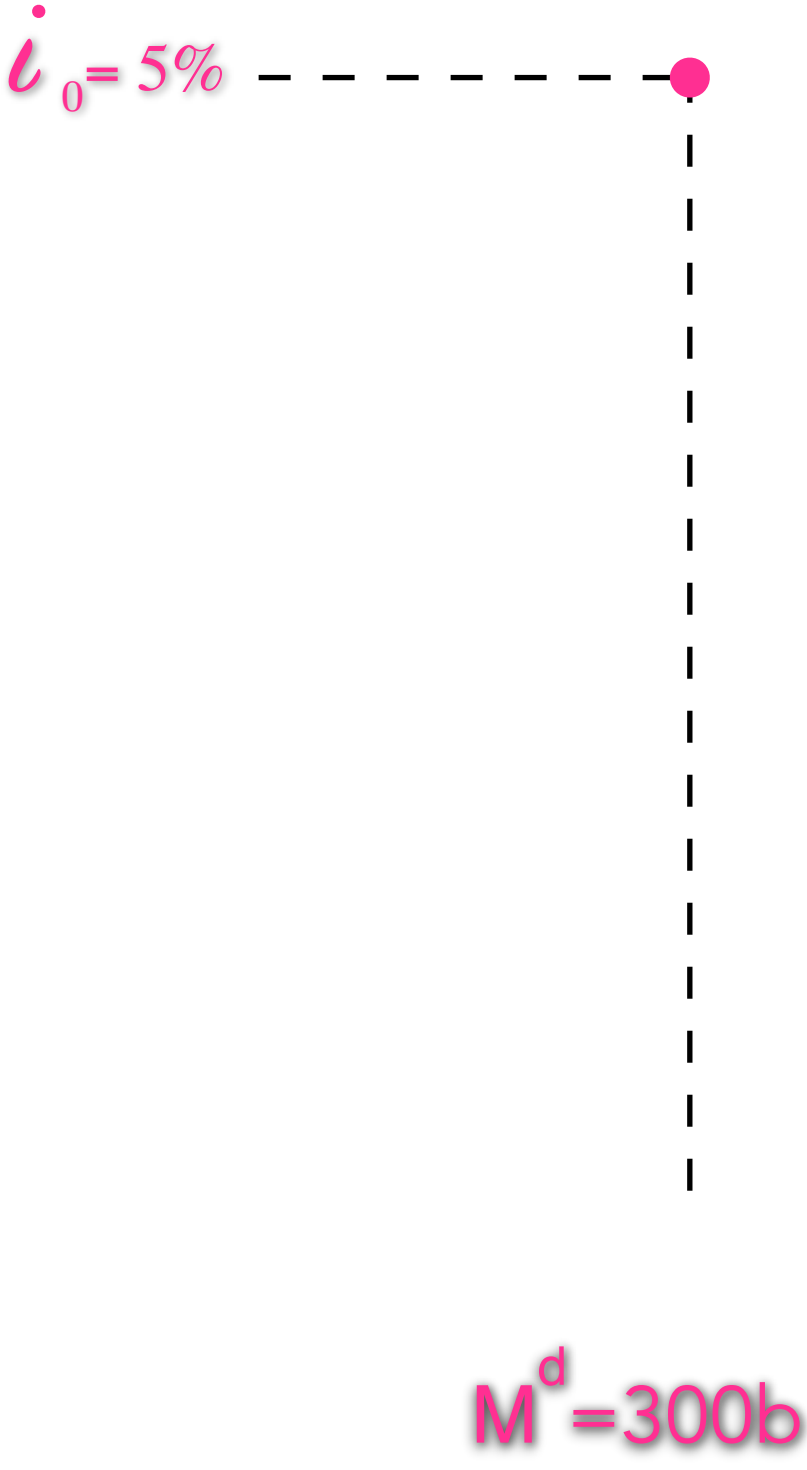
$i_1 = 1\%$

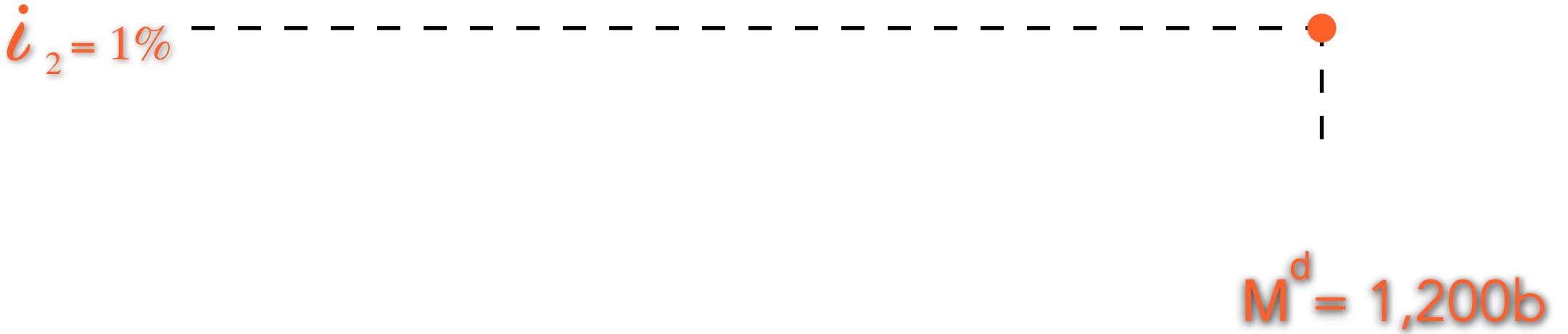
Currency+
Deposits

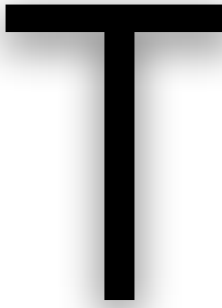


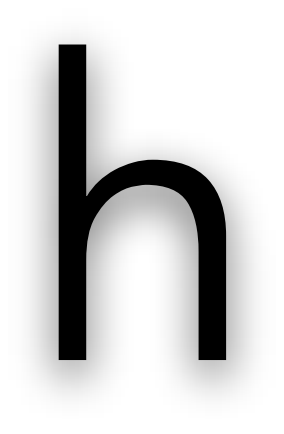

$M_0^d(P_0, GDP_0)$

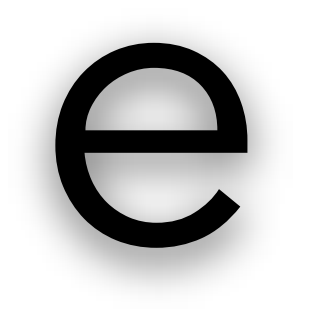

$i_0 = 5\%$
$M^d = 300b$

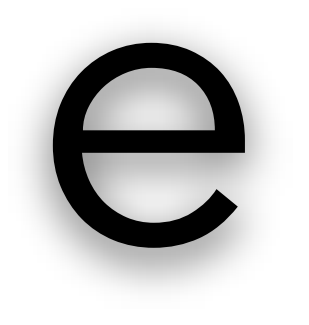

$i_1 = 3\%$
$M^d = 900b$

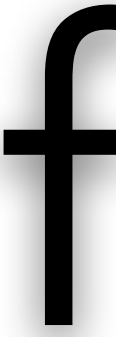

$i_2 = 1\%$
$M^d = 1{,}200b$

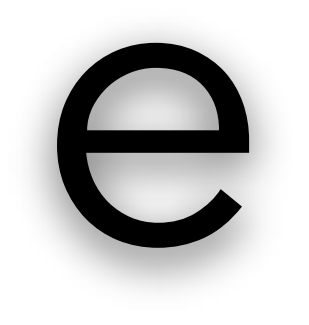


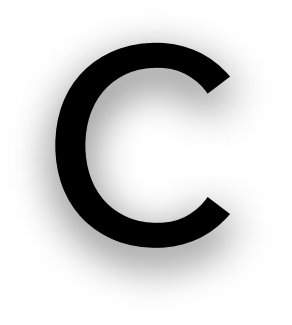








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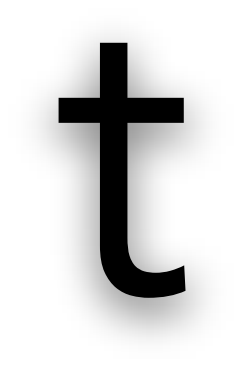

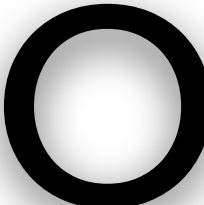

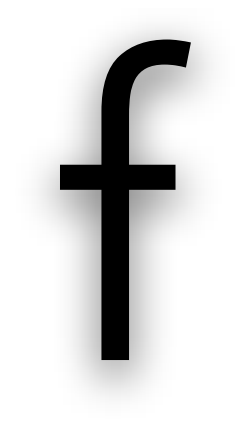

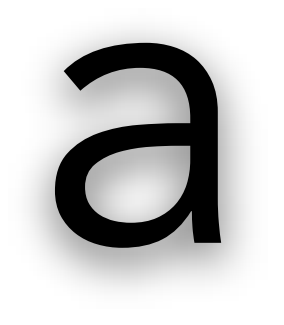
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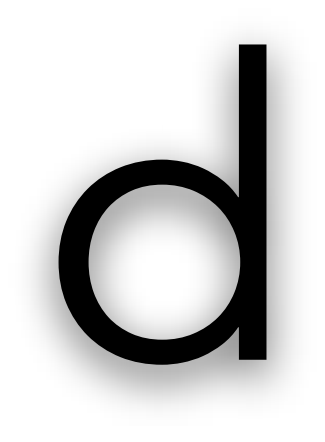

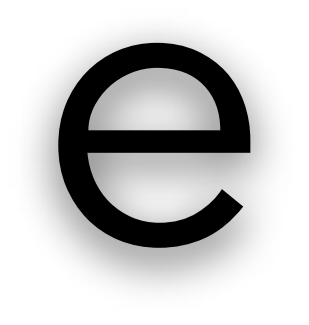

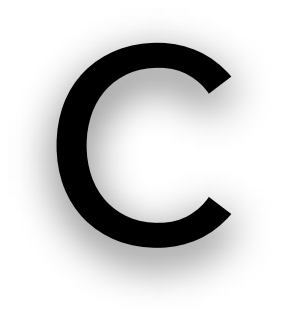
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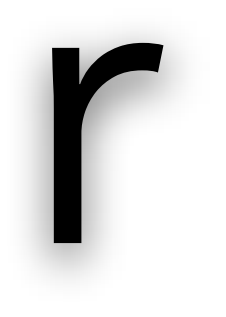

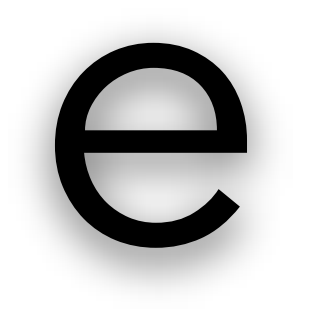

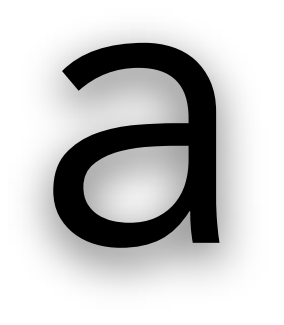
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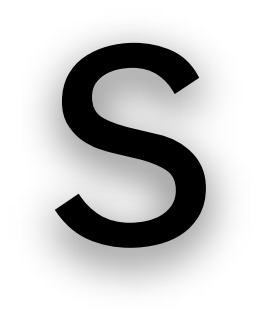

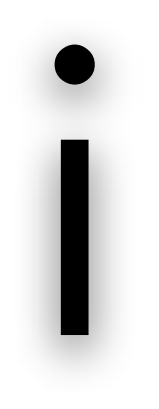

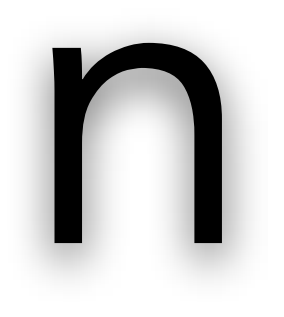
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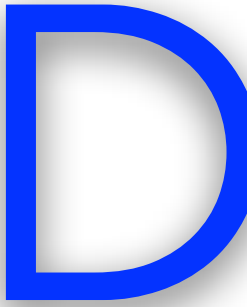
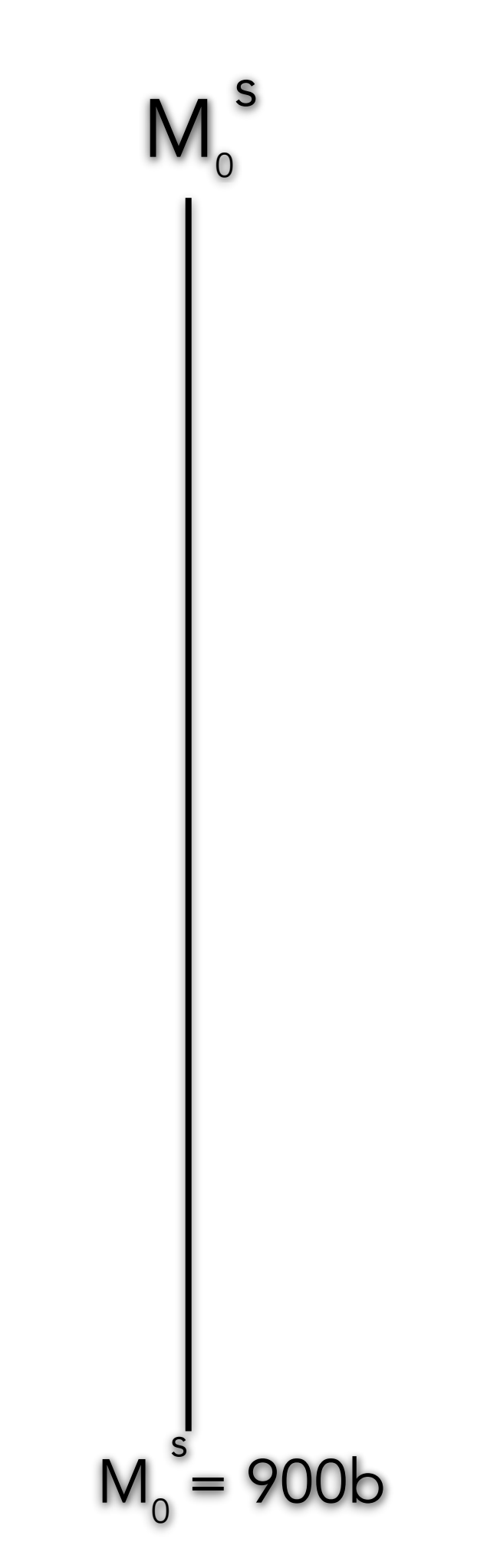
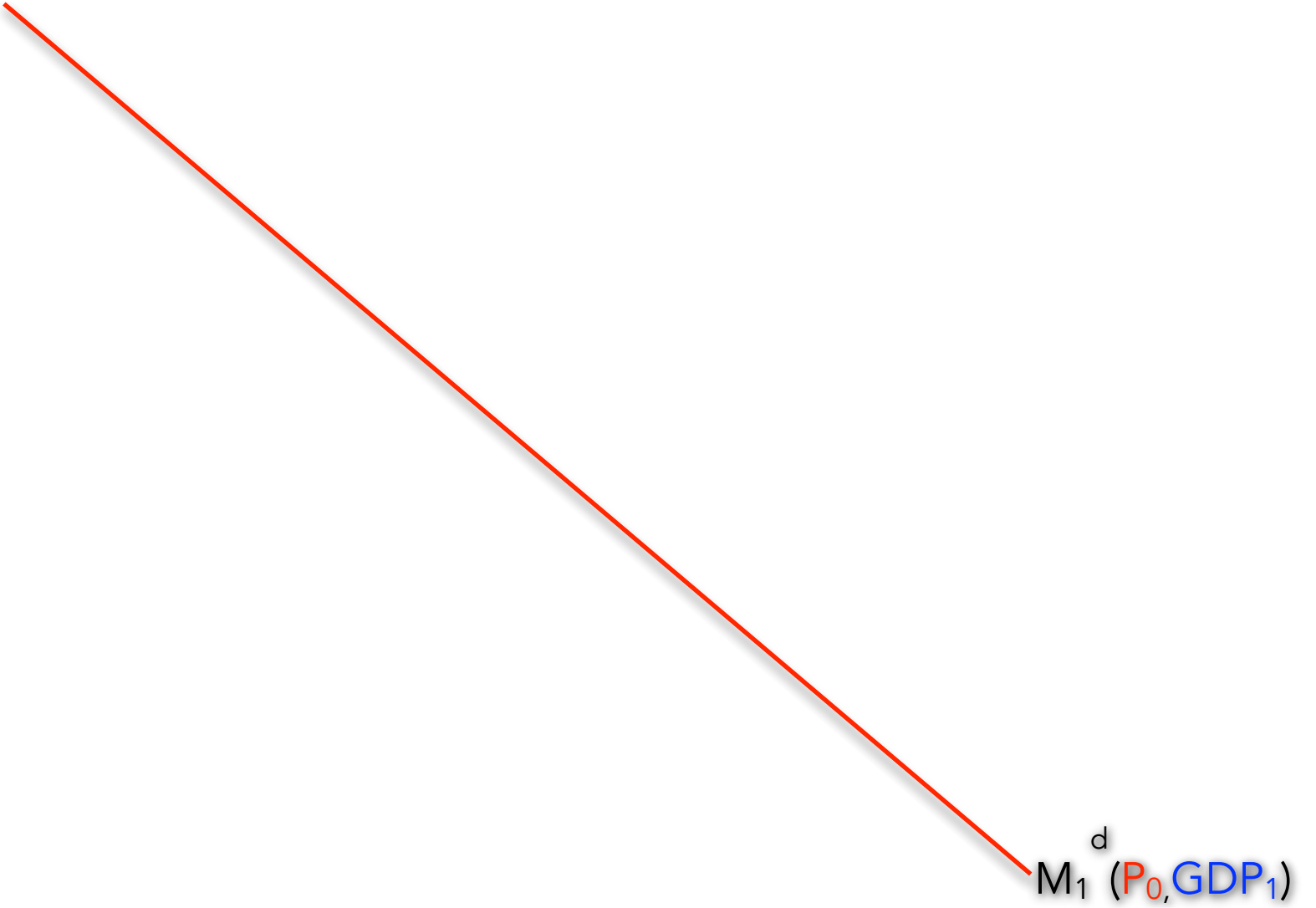
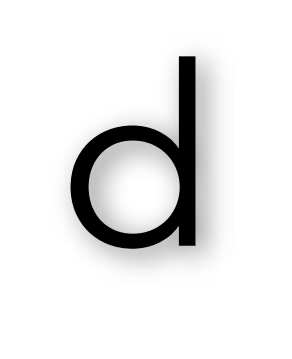
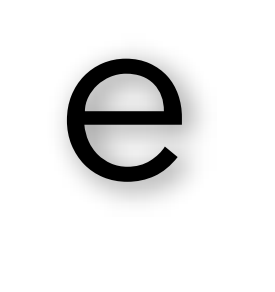


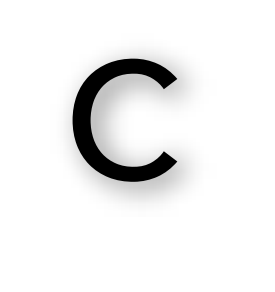
Assume the Money Market starts at equilibrium

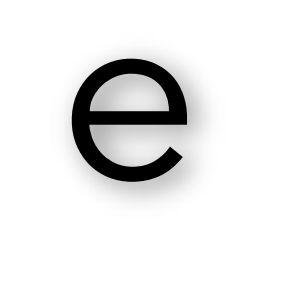

M_0^s
$M_0^s = 900b$


$M_1^d(P_0, GDP_1)$







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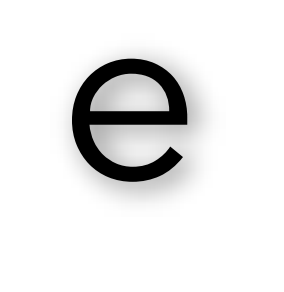

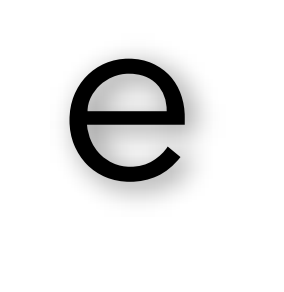


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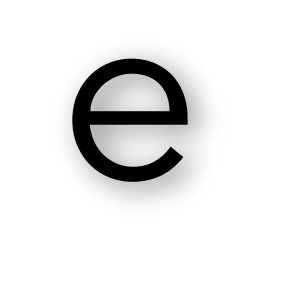

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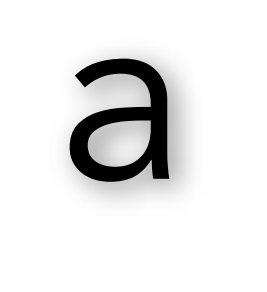
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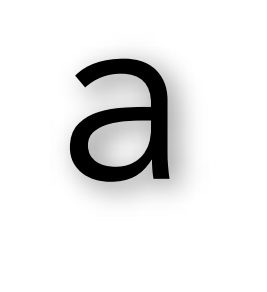
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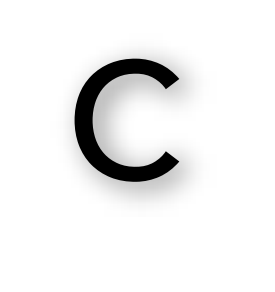
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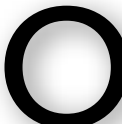

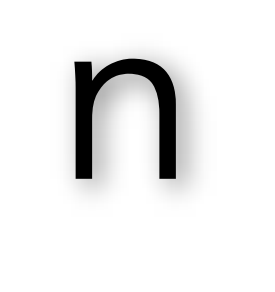
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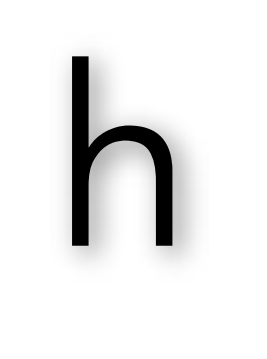
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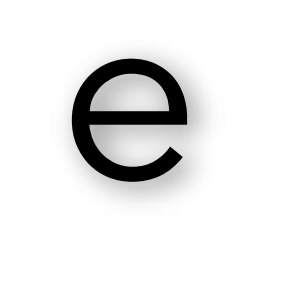

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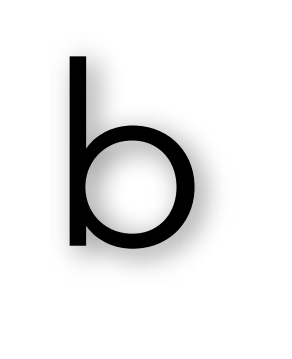


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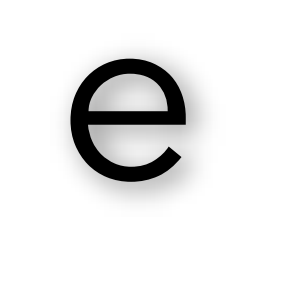

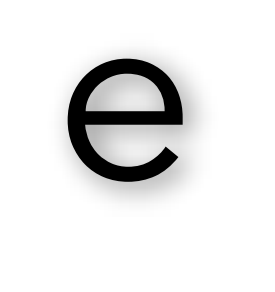

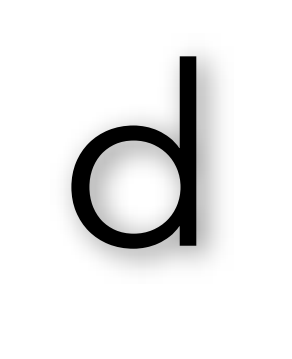

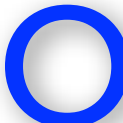


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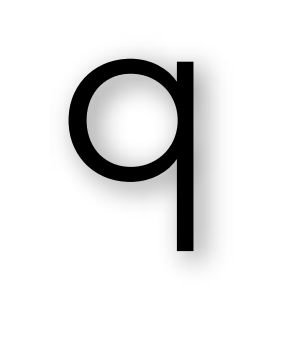

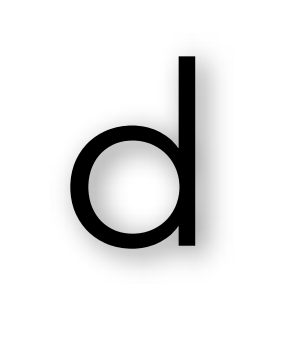

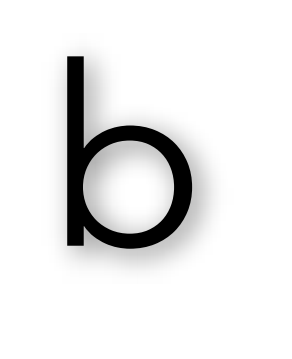

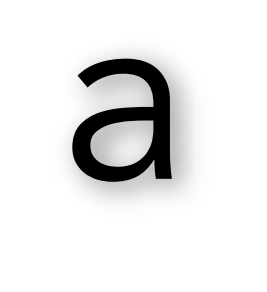
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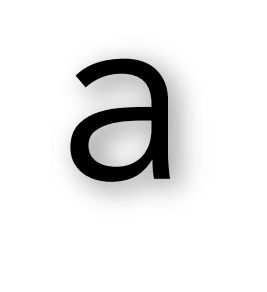
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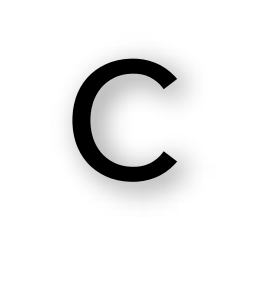
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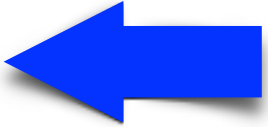

A leftward shift in the Demand for Money


excess liquid
balances at 3%

The interest rate will fall to a new equilibrium at 1%

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


New
equilibrium

$$M^{d} = 900b$$

The effect of a decrease in GDP

If GDP decrease (fewer transactions) the public will need lower liquid balances

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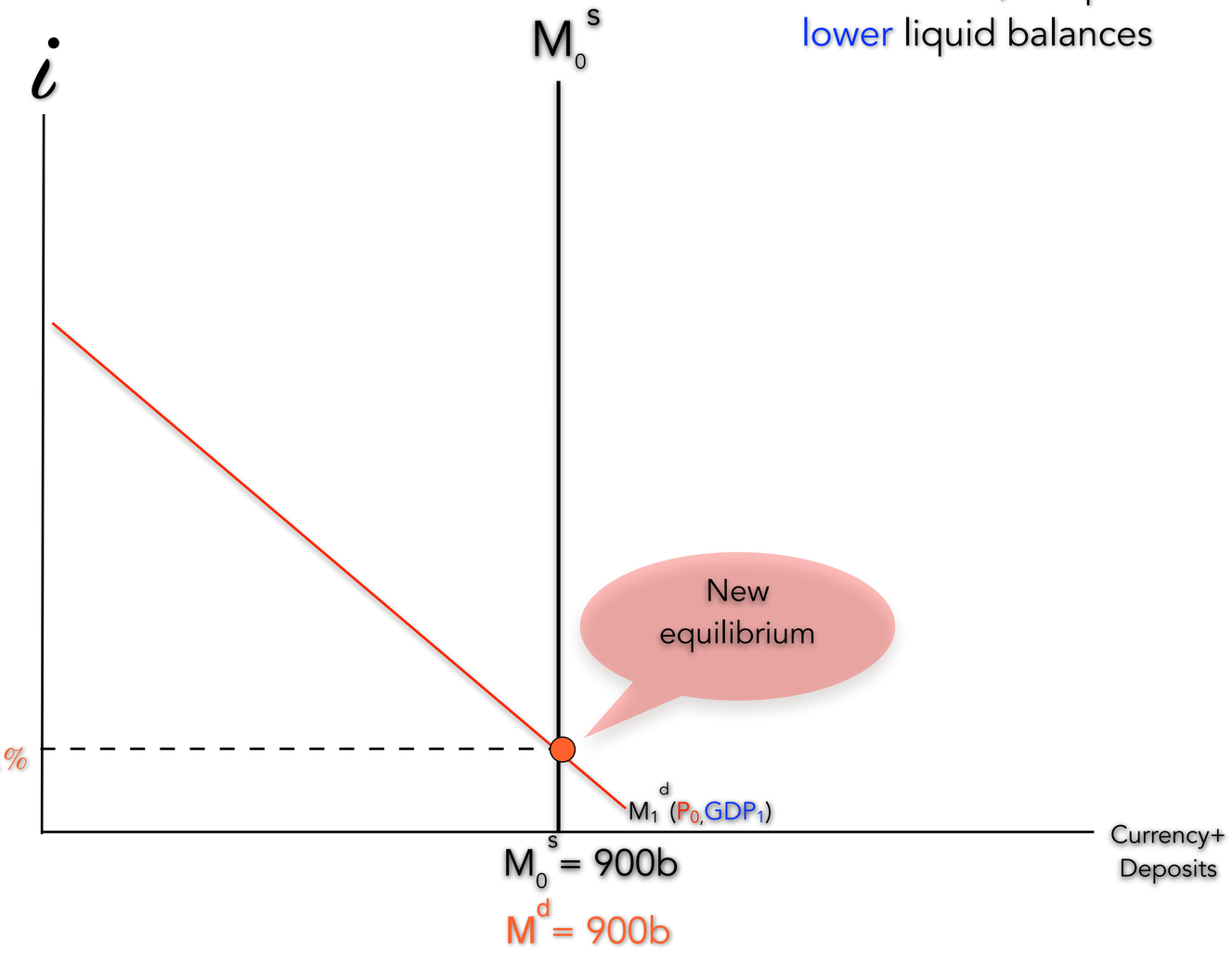

The interest rate will fall to a new equilibrium at 1%