





D (from banks short of reserves)

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Federal Funds





















F











R















The Federal Funds Market

A red speech bubble with a black drop shadow, pointing towards the bottom right. Inside the bubble, the text "What determines the Demand for funds?" is written in a black, sans-serif font.

What determines the  
Demand for funds?

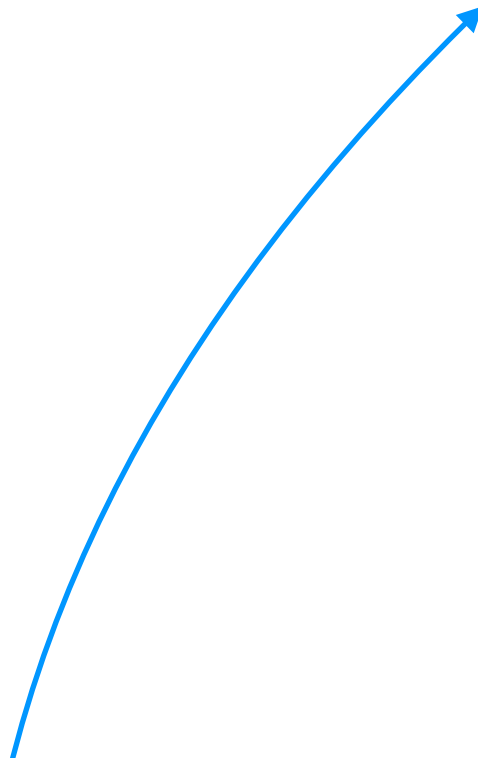
$$\text{Required Reserves} = r \times D$$



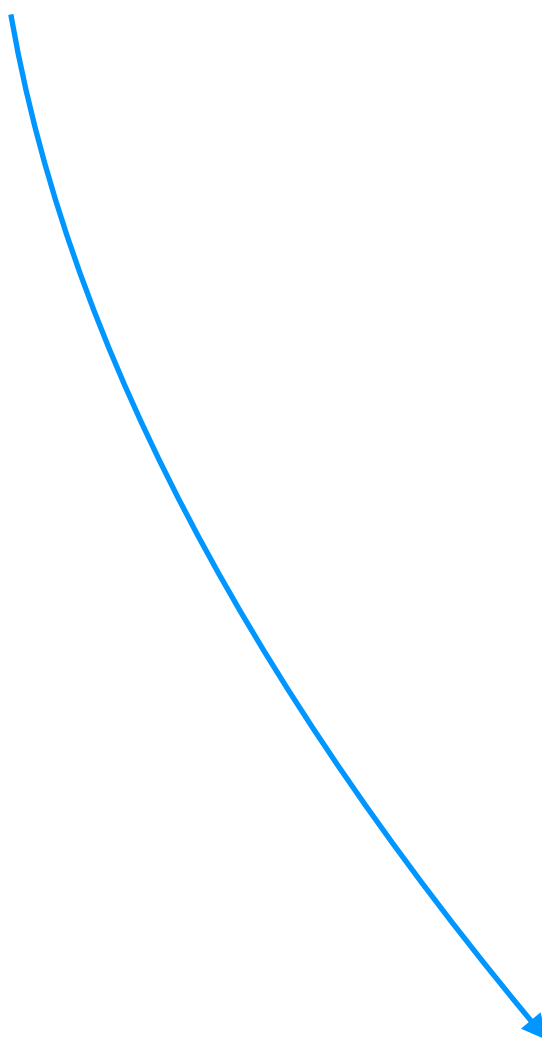
Deposits depend on how much the public needs to hold in liquid form to pay for transactions



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





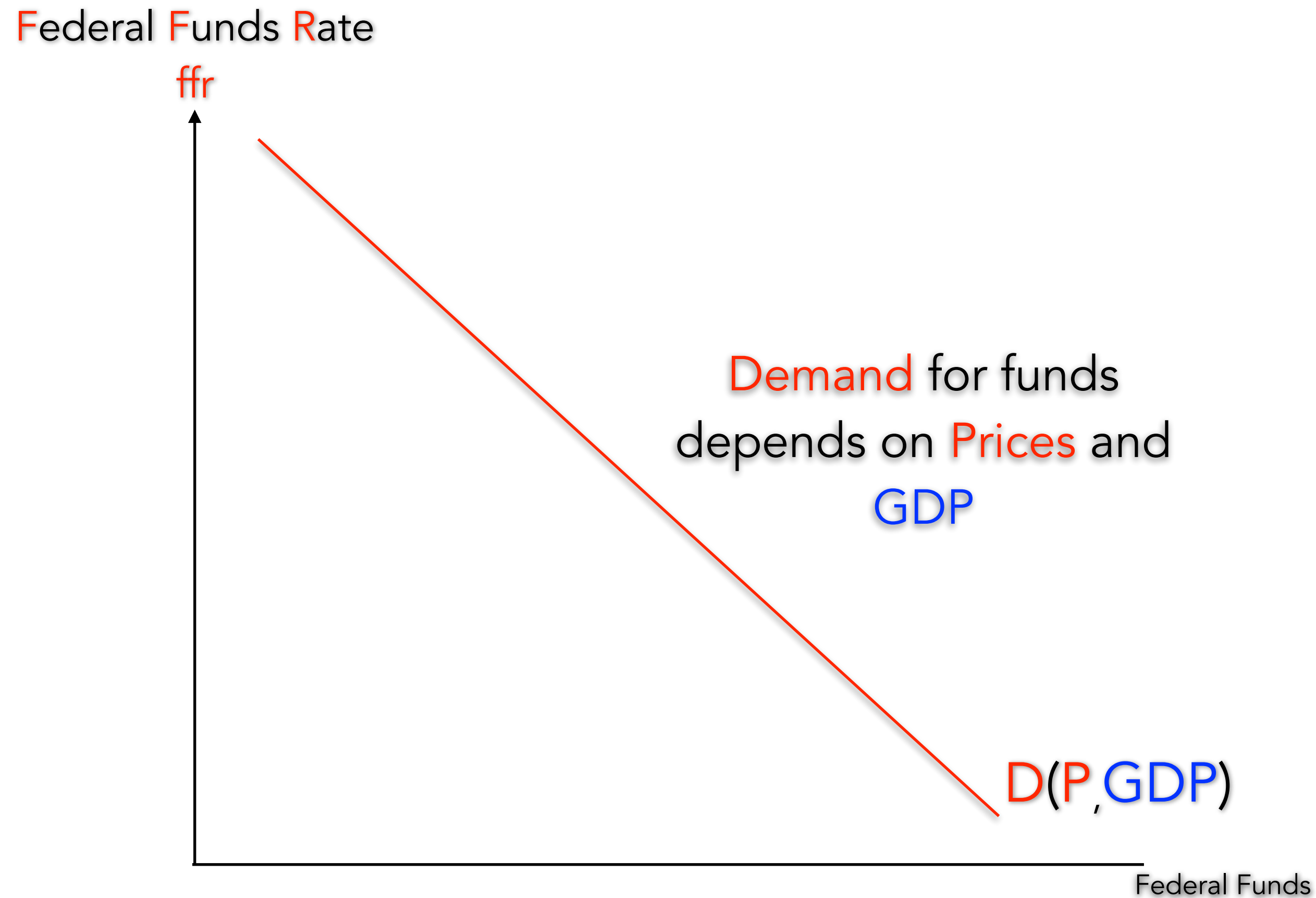
The larger **Deposits** are, the  
larger the amount of **Required  
Reserves** banks must hold



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