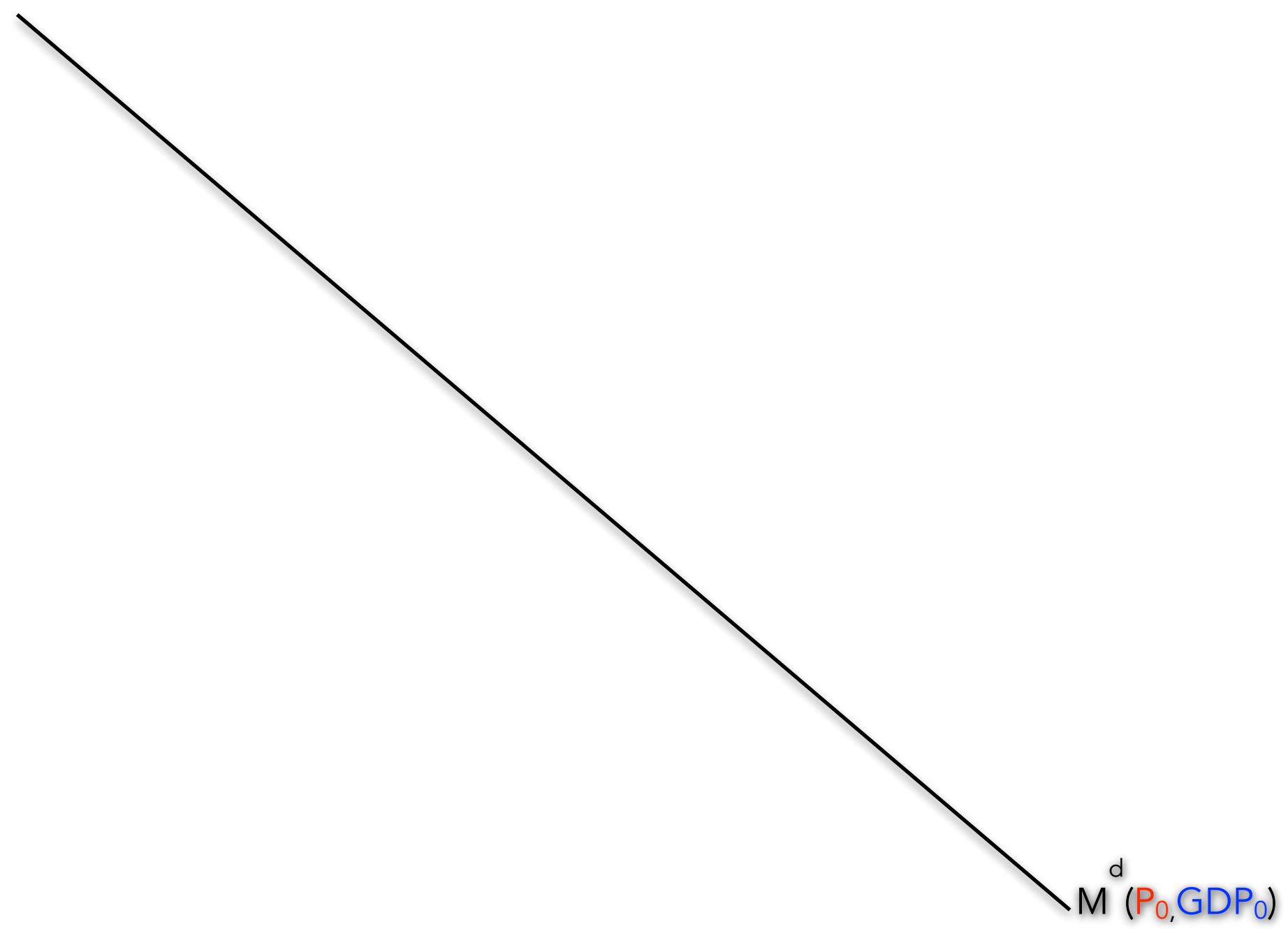


Equilibrium in the Money Market

Currency+
Deposits

i

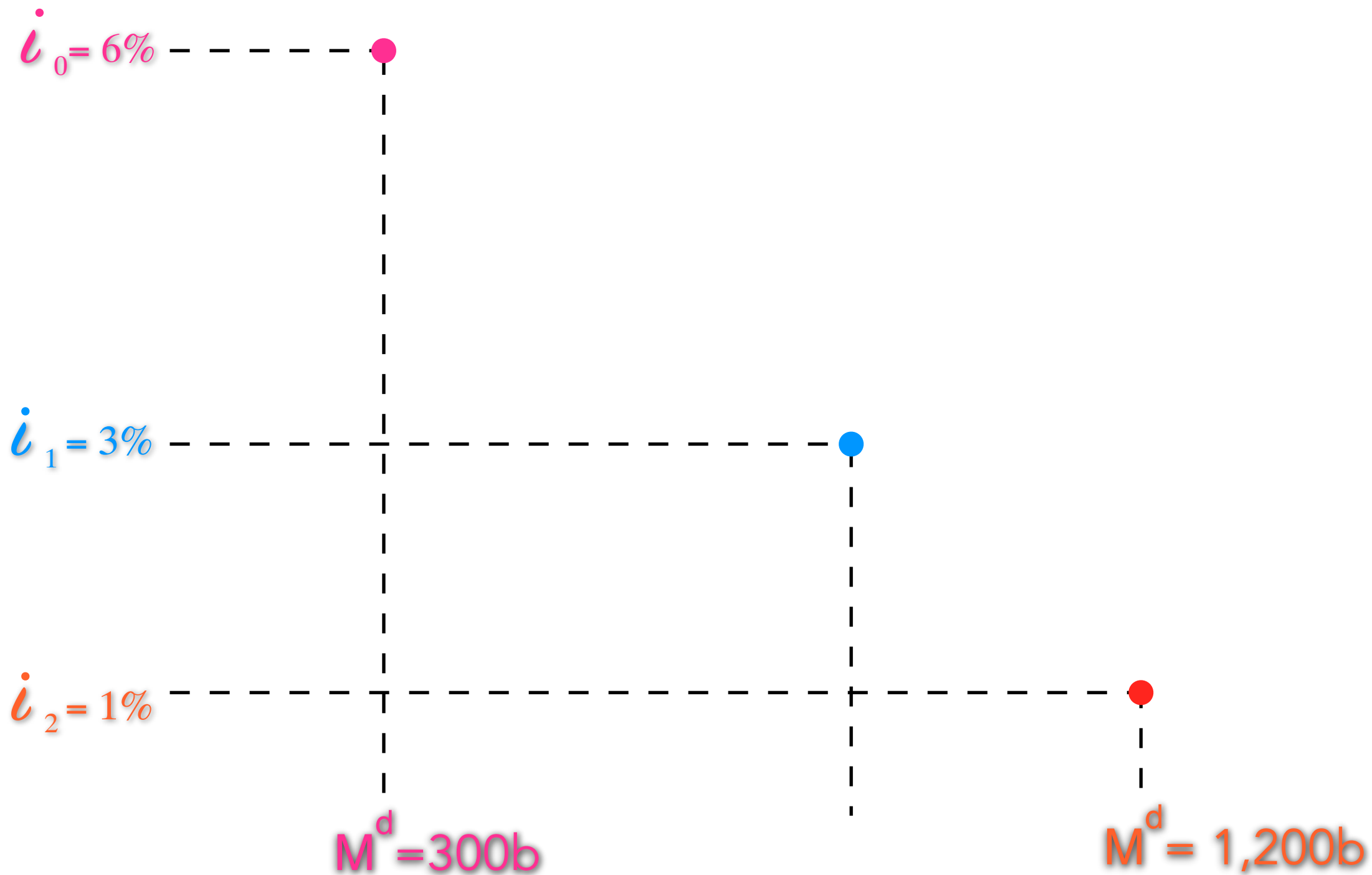




M^s



$M^s = 900b$



But the public is
actually holding

$$M^s = 900b$$

Short of liquid balances





The public will look for a way to get
liquid balances (cash and deposits)



The public will look for willing lenders
to get the necessary funds

To find willing lenders,
borrowers must offer a
higher interest rate



If the interest rate is
1%, the amount of
currency + deposits the
public **wants** to hold for
transactions is **1,200b**

The public does not have enough
 liquid balances (cash and
deposits) to pay for transactions

It will be difficult to find willing
lenders at 1% interest, because at 1%,
everyone wants to borrow (short of
liquid balances) money is scarce



W

















2















2

















U







2

































a







6





























U



































a











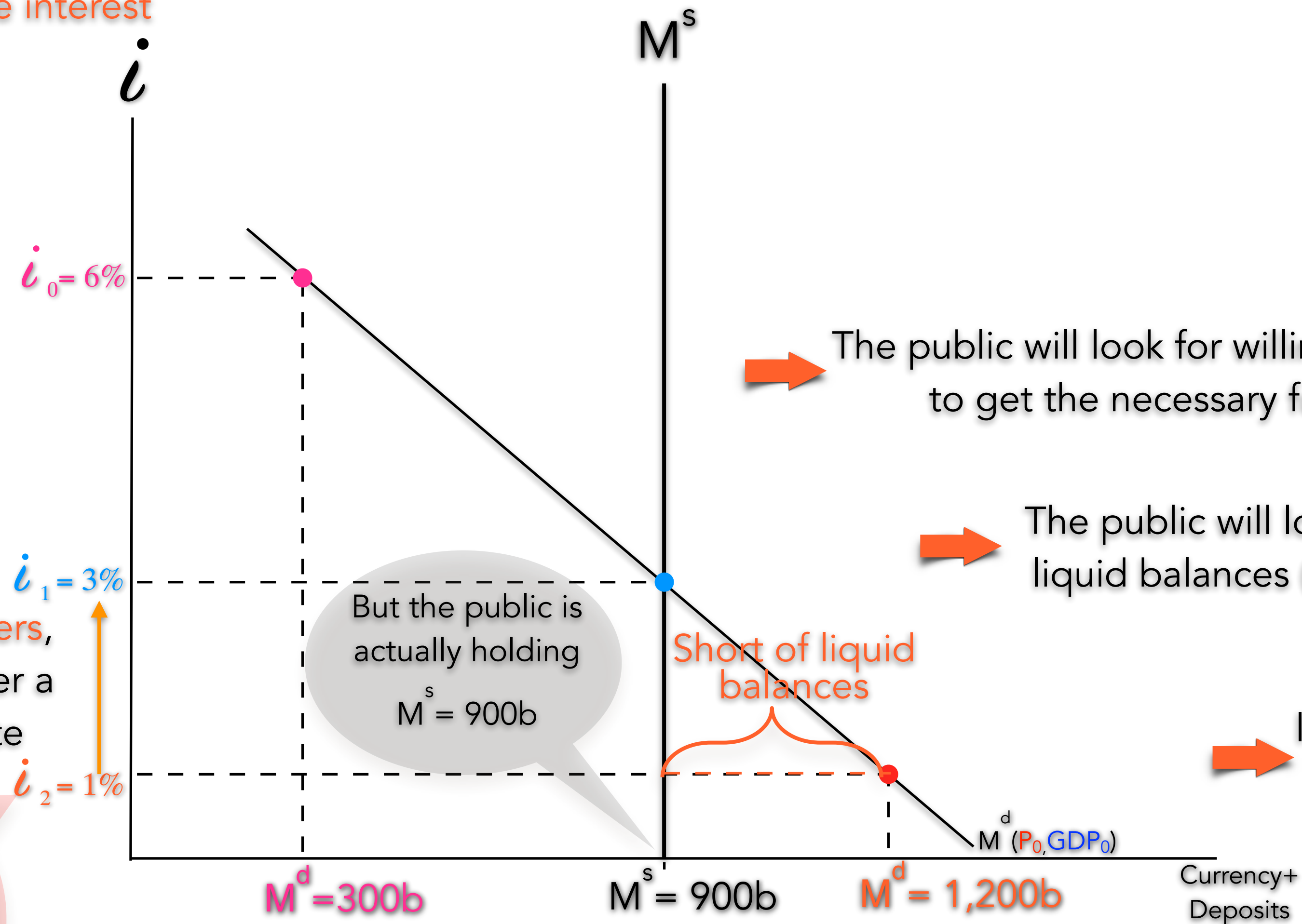


A large, stylized orange letter 'S' is centered on a light gray background. The letter is thick and has a slightly irregular, hand-drawn appearance. It is oriented vertically, with the top of the 'S' pointing towards the top of the frame. The background is a solid, light gray color.



Equilibrium in the Money Market

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



→ The public will look for willing **lenders** to get the necessary funds

→ The public will look for a way to get liquid balances (cash and deposits)

→ It will be difficult to find willing lenders at **1%** interest, because at **1%**, everyone wants to borrow (short of liquid balances) **money is scarce**

To find willing **lenders**, borrowers must offer a **higher** interest rate

If the interest rate is **1%**, the amount of currency + deposits the public **wants** to hold for transactions is **1,200b**

But the public is actually holding $M^s = 900b$

Short of liquid balances

Equilibrium in the Money Market