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Money Market

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The Money Market

- The market where the Fed and the users of money interact thus determining the $i\%$
- Money demand (M_D) comes from ...
 - Households
 - Firms
 - Government
 - Foreign Sector
- The money supply (M_S) comes from ...
 - The Federal Reserve (and nobody else)

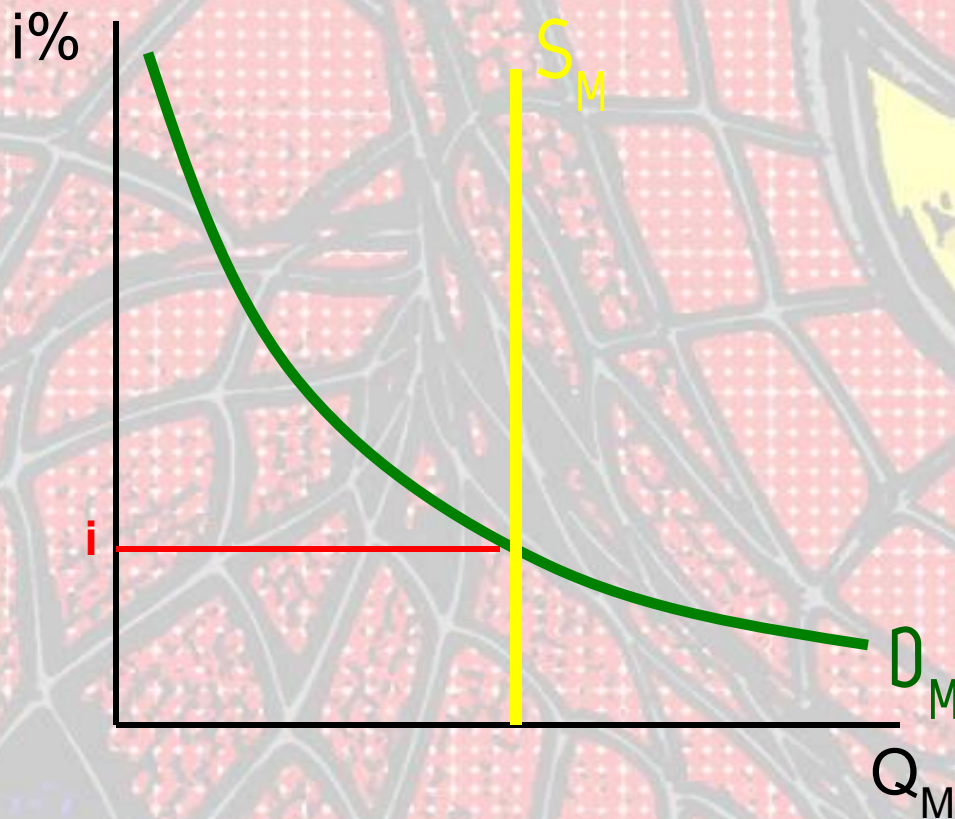
Money Demand (M_D)

- Transaction Demand – demand for money as a medium of exchange (independent of the interest rate)
- Asset Demand – demand for money as a store of value (dependent of interest rates)
- Totally Money Demand – M_D is downward sloping b/c at high interest rates people are less inclined to hold money and more inclined to hold stocks & bonds (why?). At lower interest rates people sacrifice less when they hold money.

Money Supply (M_s)

- The money supply is determined by the federal Reserve b/c the Fed has monopoly control over the supply of money
 - It's kinds a big deal

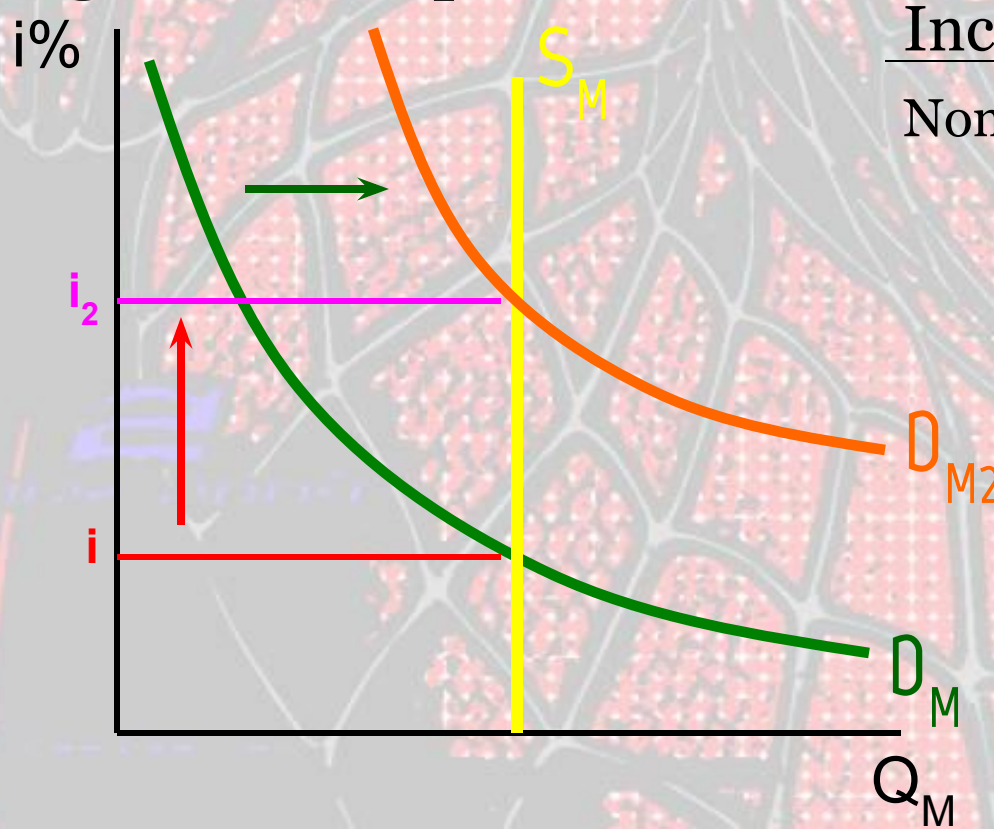
The Money Market



The equilibrium of D_M & S_M determine the $i\%$

Changes in Money Demand

- Money demand is dependent on both the price level (a.k.a inflation*) and Real GDP which together comprise the i%

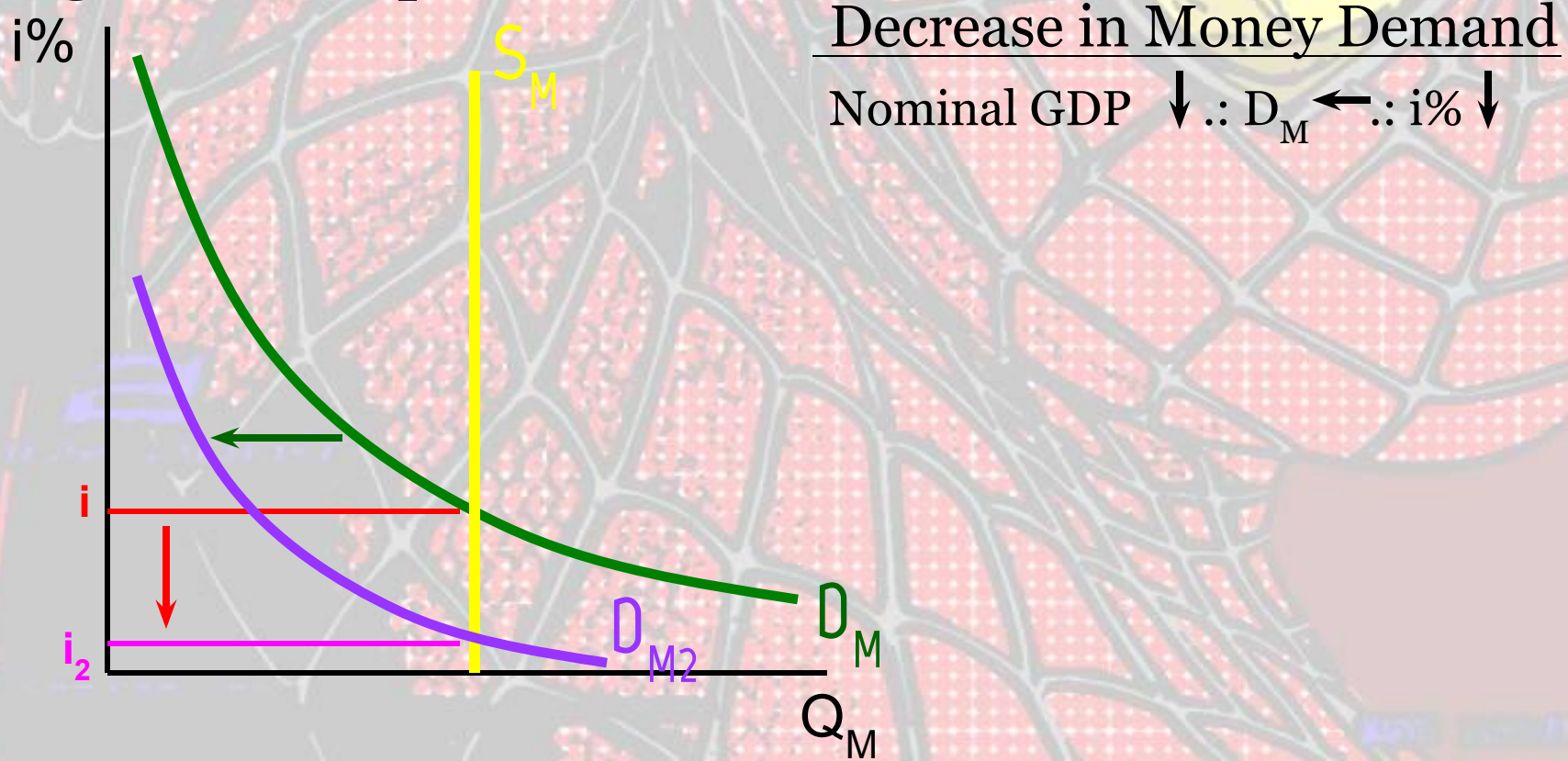


Increase in Money Demand

Nominal GDP $\uparrow \therefore D_M \rightarrow \therefore i\% \uparrow$

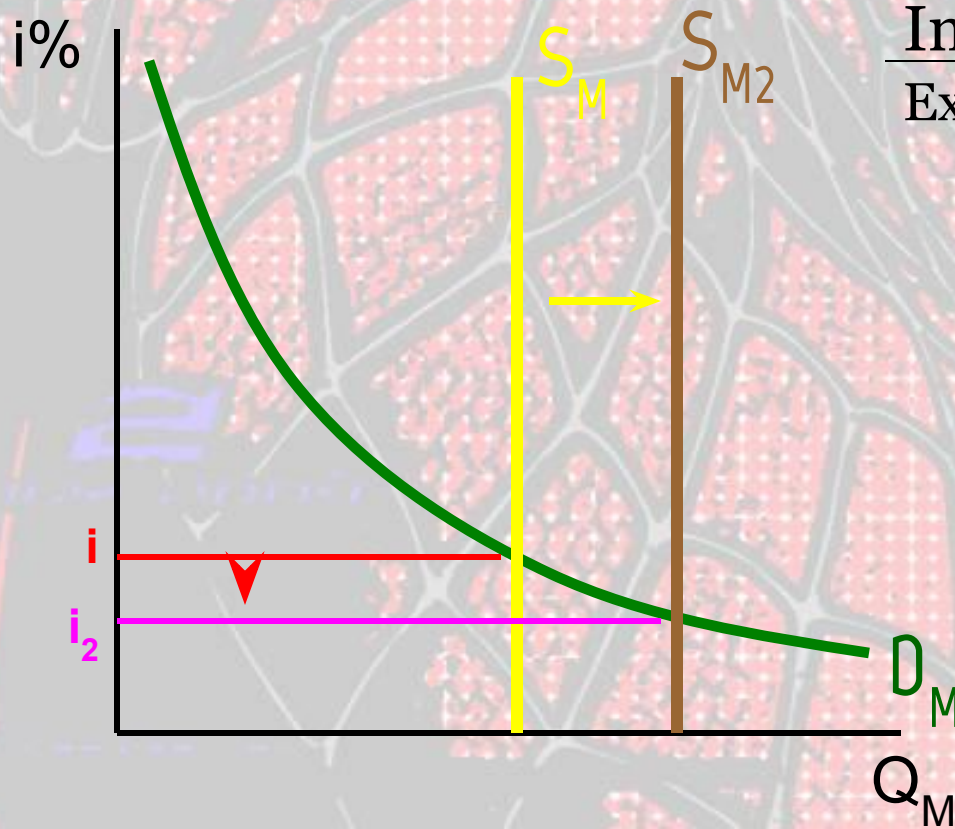
Changes in Money Demand

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Changes in Money Supply

- Only the Fed determines the money supply

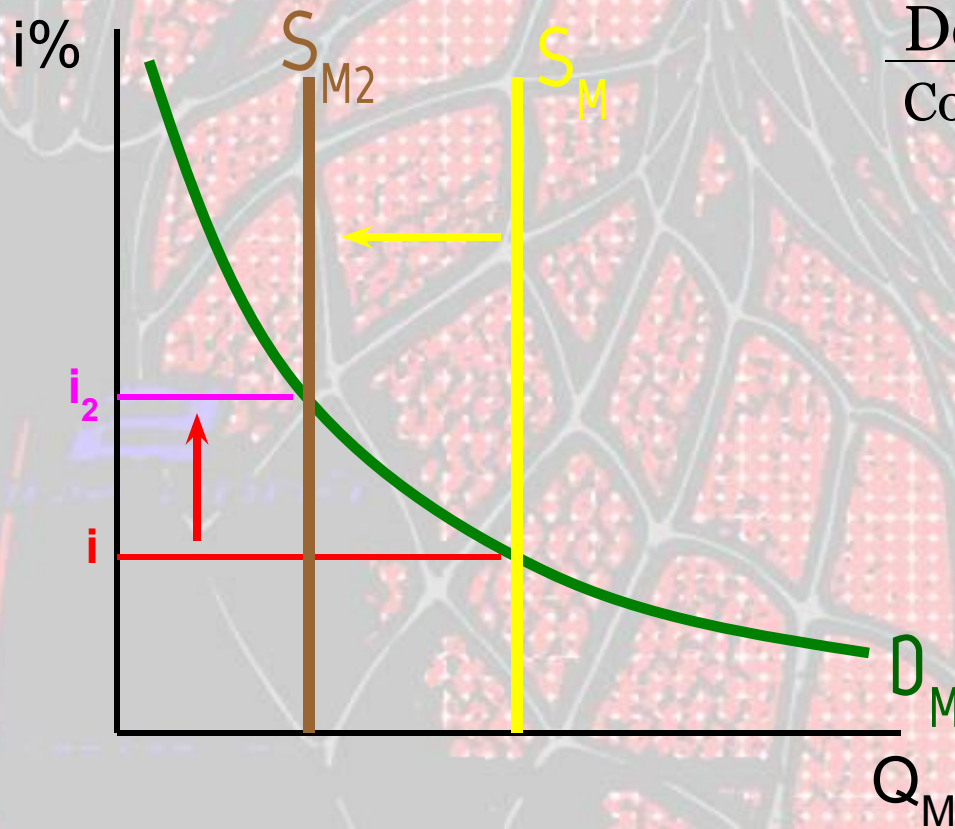


Increase in Money Supply
Expansionary Monetary Policy

$$S_M \rightarrow \therefore i\% \downarrow$$

Changes in Money Supply

- Only the Fed determines the money supply



Decrease in Money Supply

Contractionary Monetary Policy

$S_M \leftarrow \therefore i\% \uparrow$