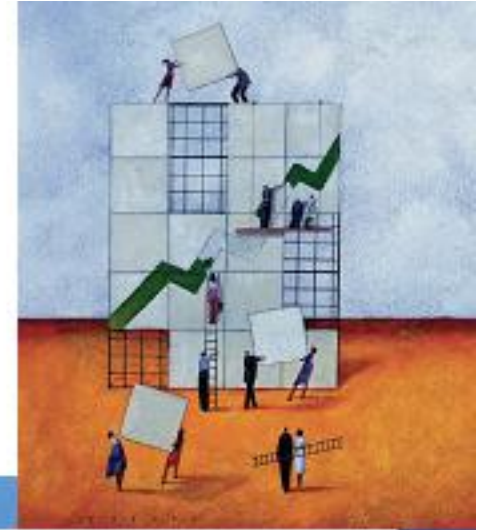


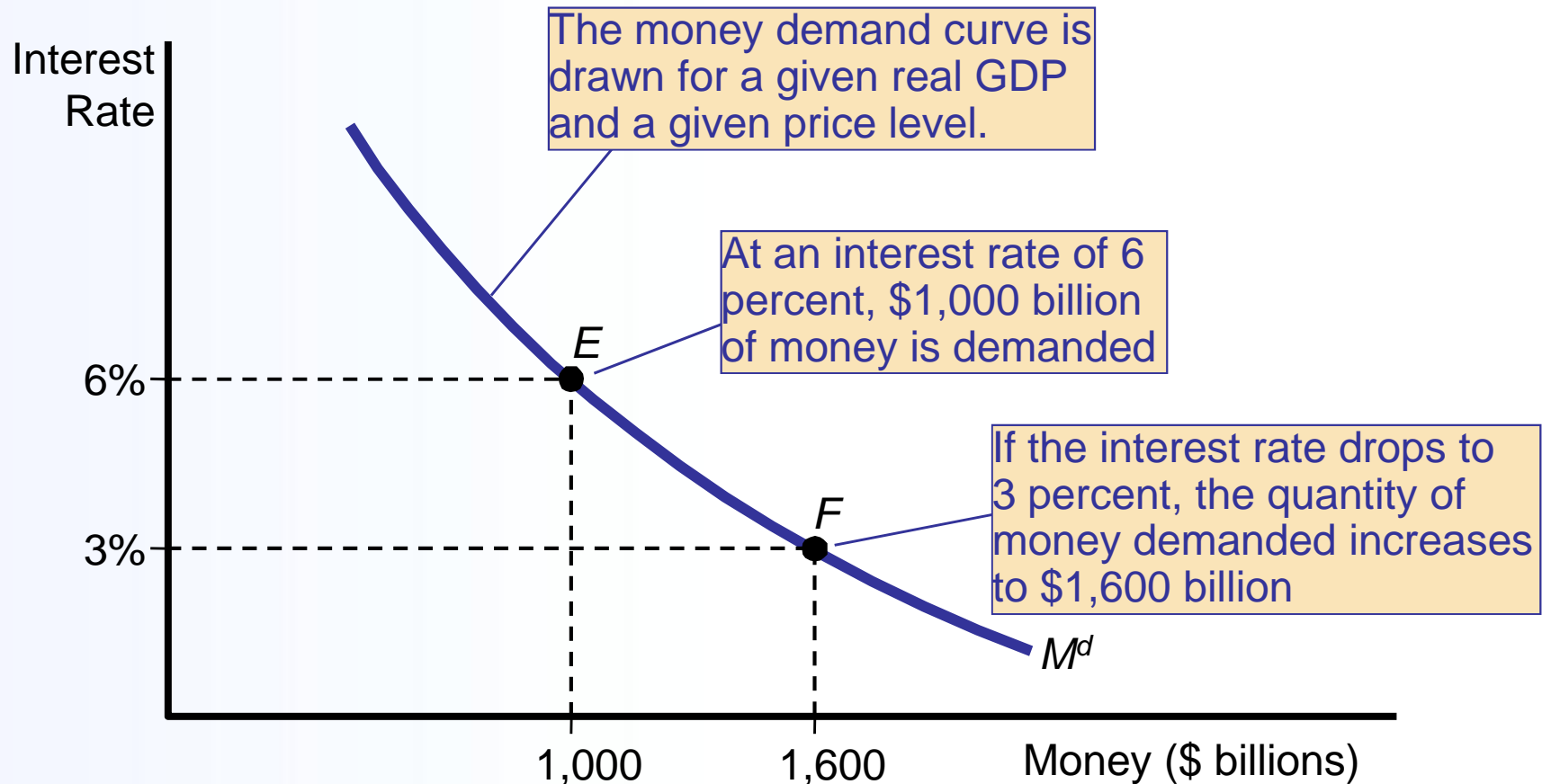
Chapter 12



The Money Market and Monetary Policy

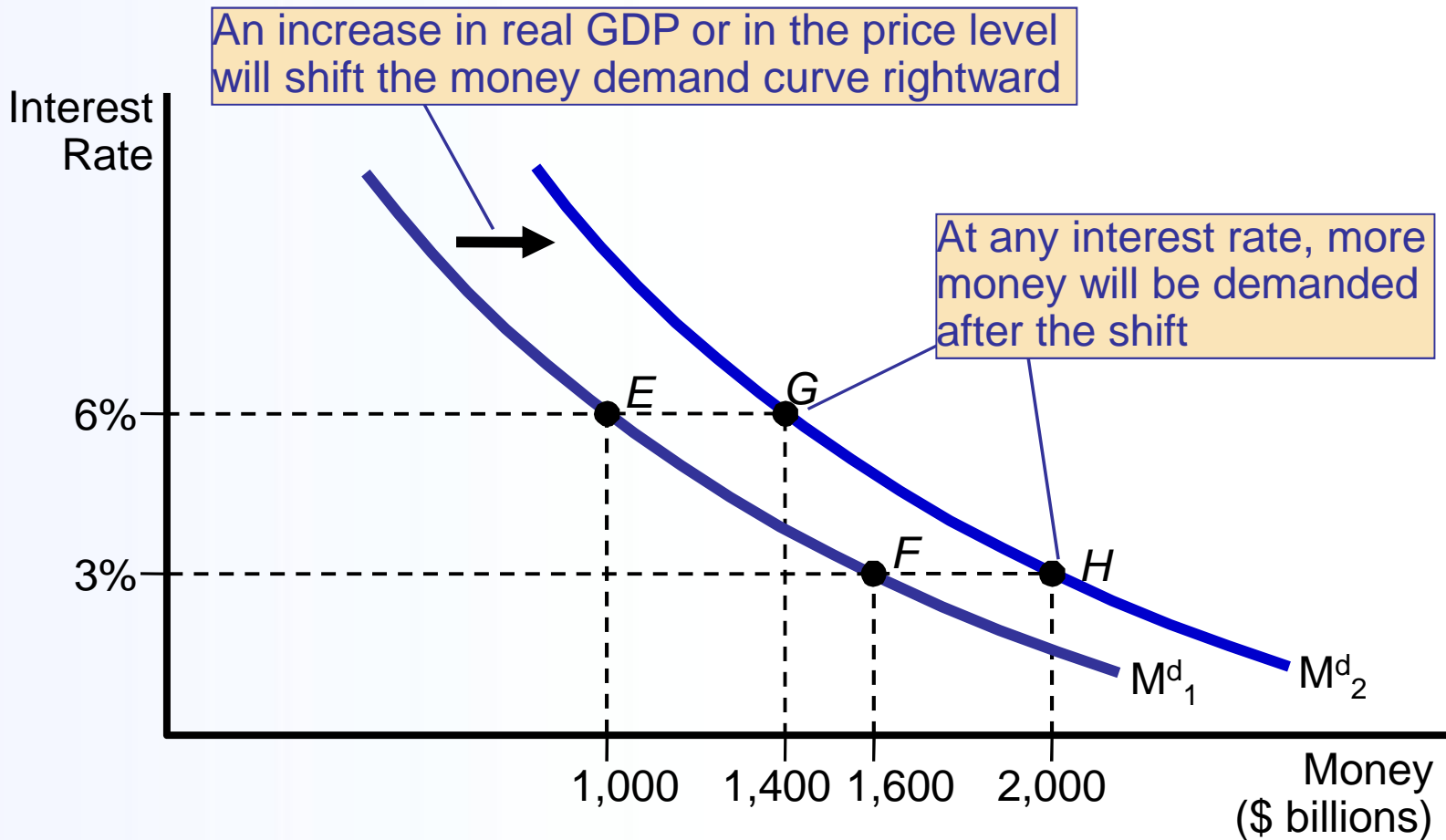
The Money Demand Curve

- **Figure 1** The Money Demand Curve



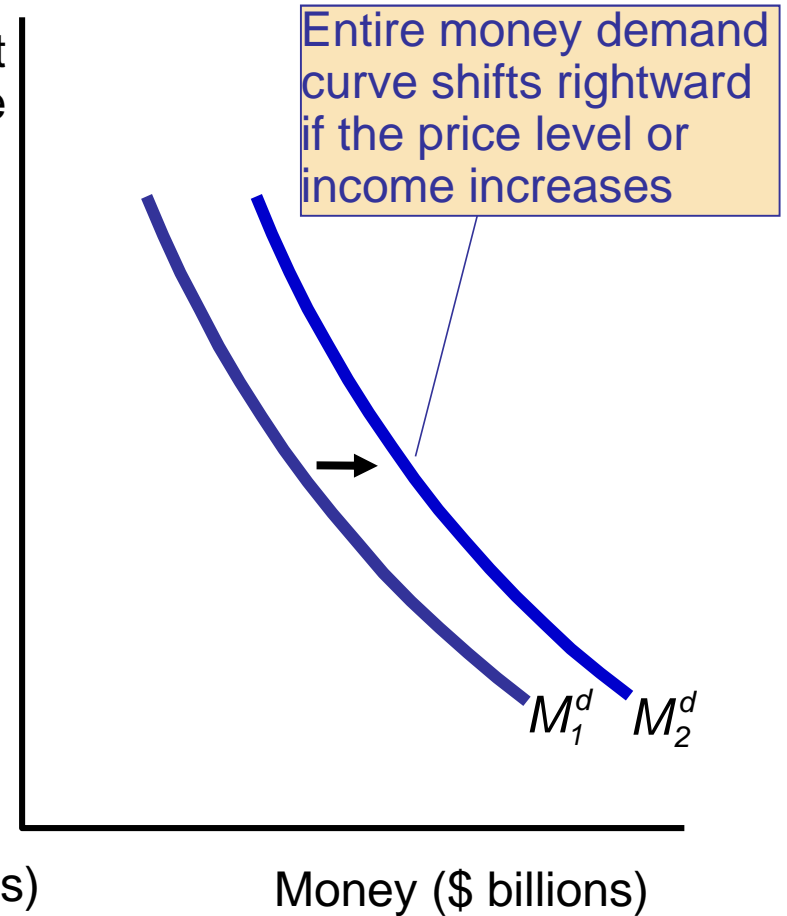
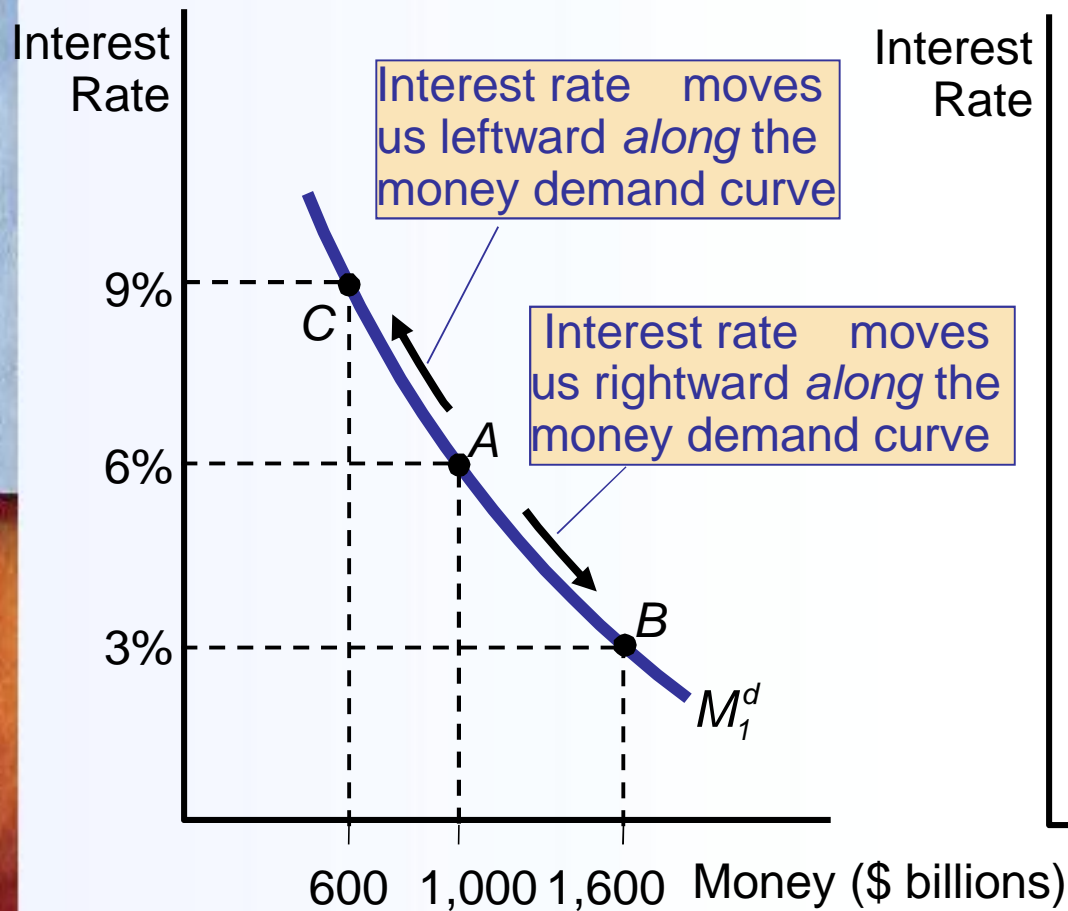
Shift in the Money Demand Curve

- **Figure 2** A Shift in the Money Demand Curve



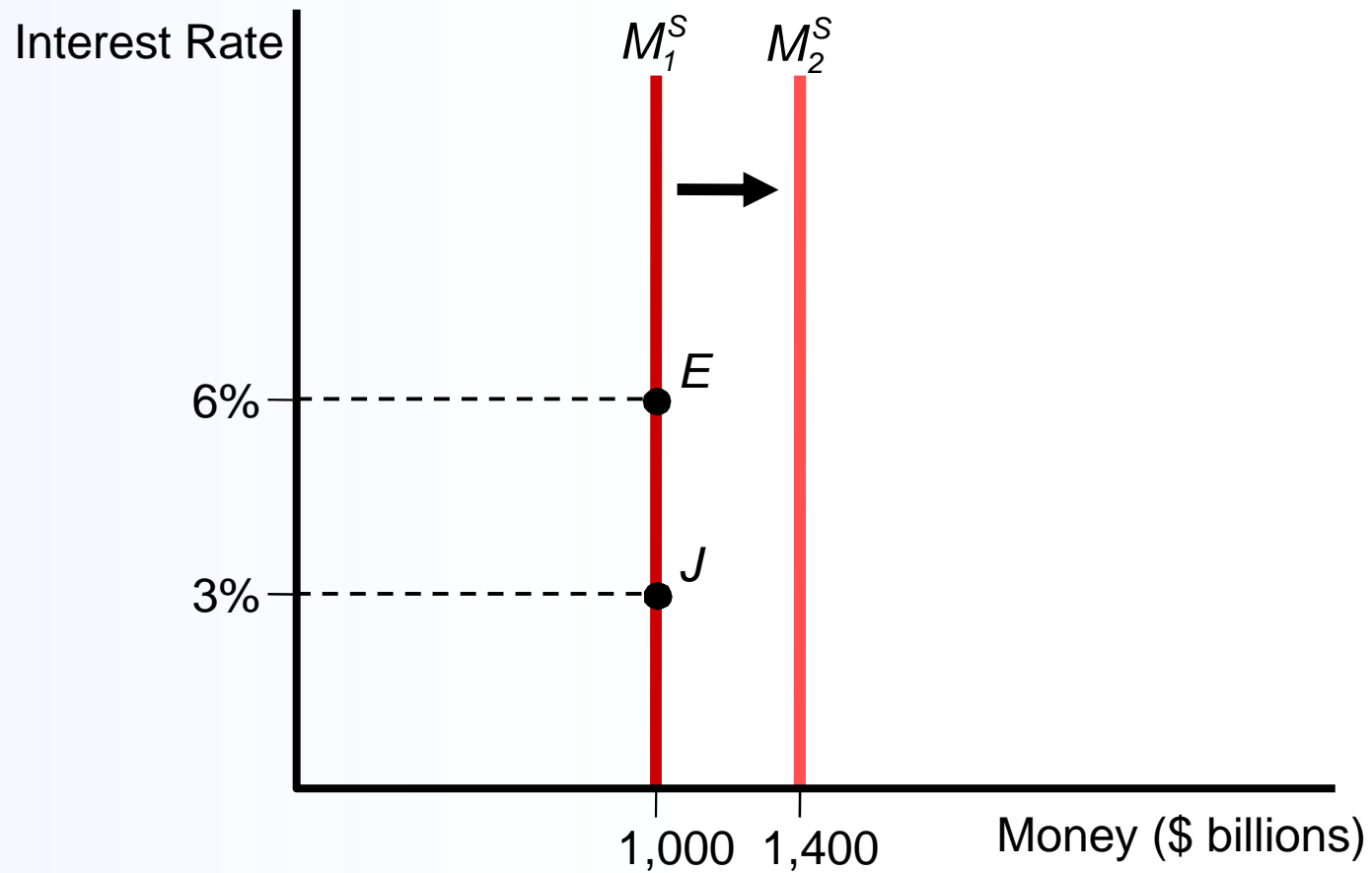
The Money Demand Curve

- **Figure 3** Shifts and Movements Along the Money Demand Curve



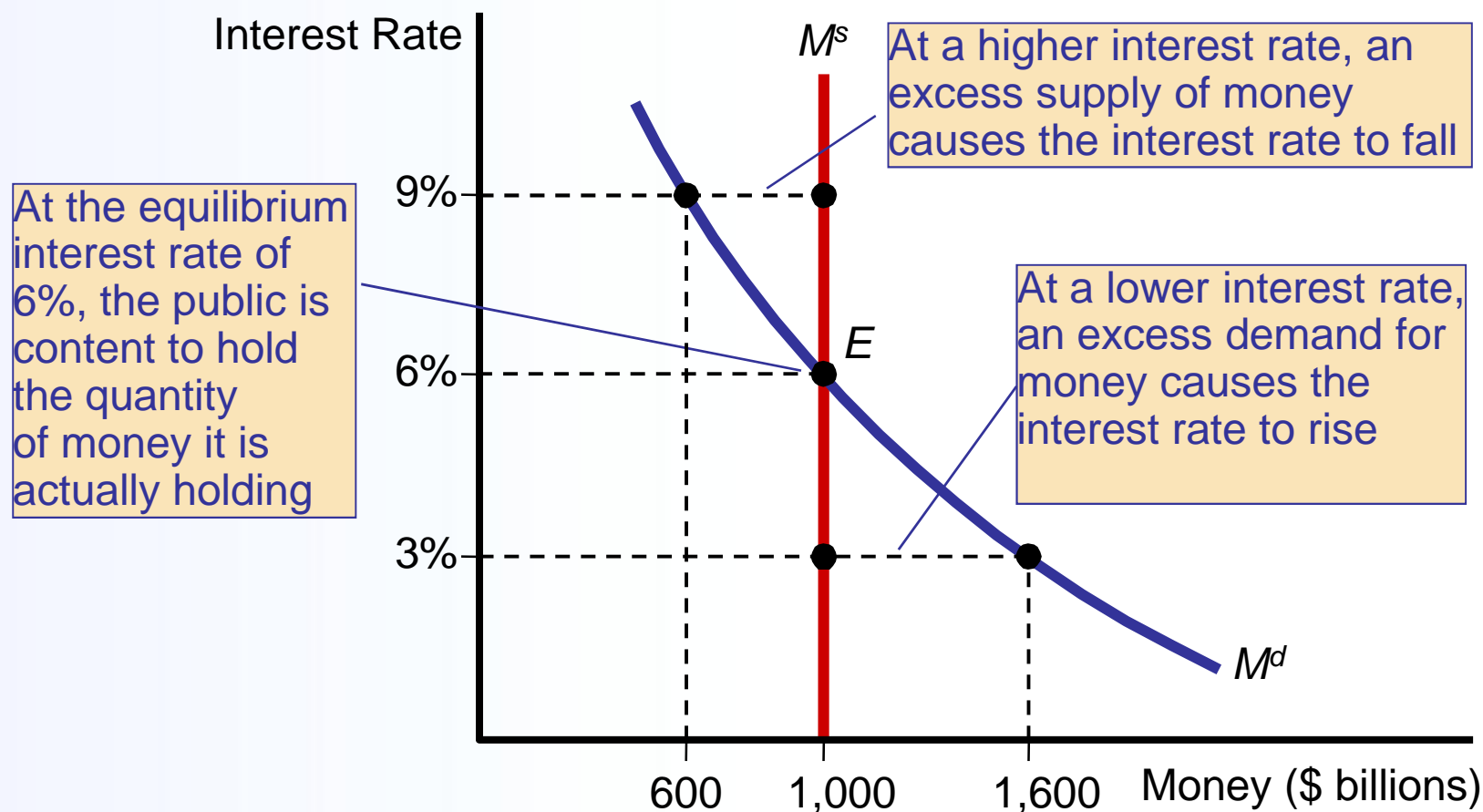
The Supply of Money

- **Figure 4** The Supply of Money

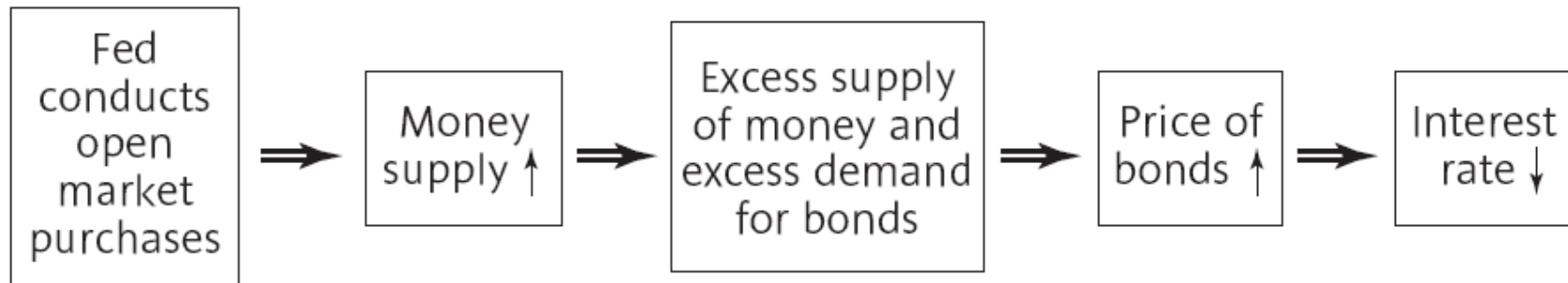


Money Market Equilibrium

- **Figure 5** Money Market Equilibrium



What Happens When Things Change?

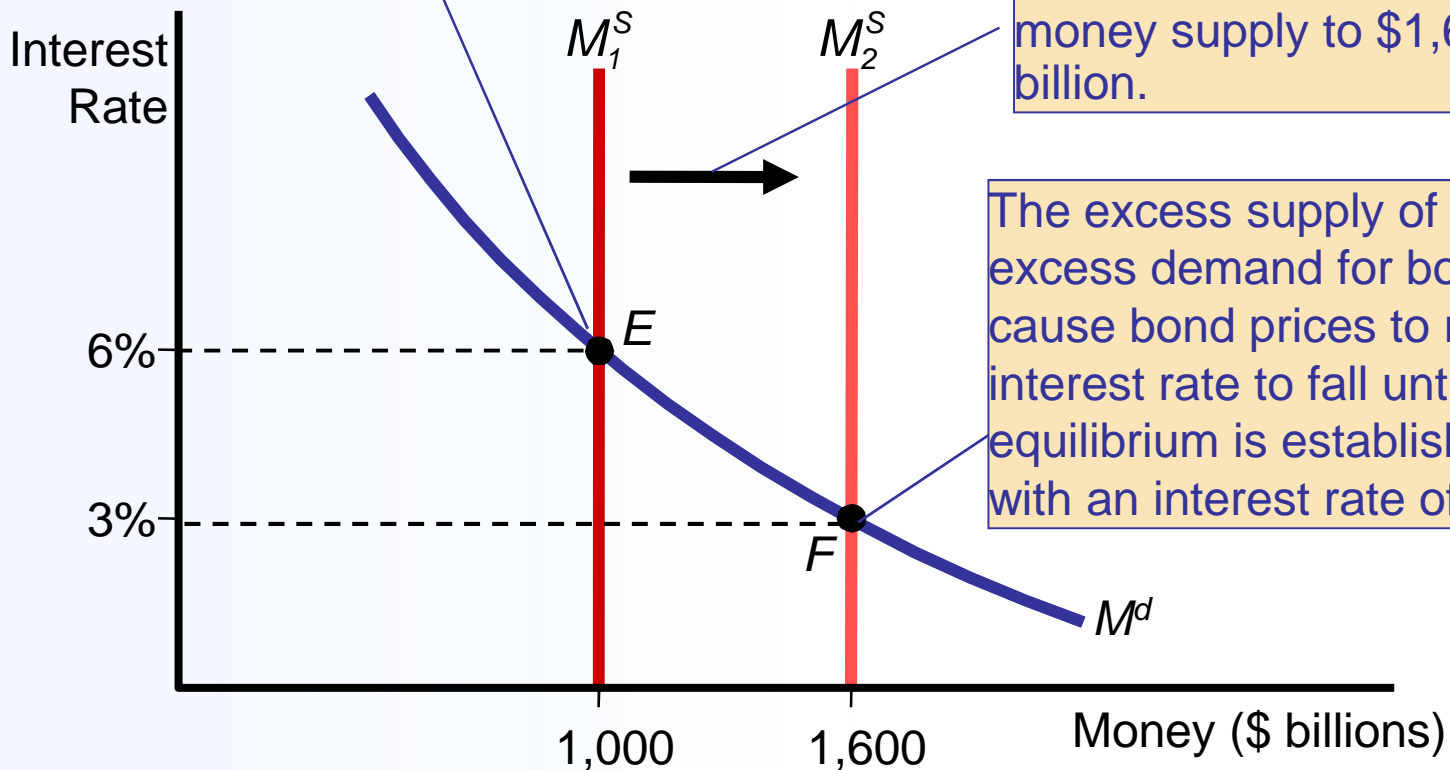


An Increase in the Money Supply

- **Figure 6** An Increase in the Money Supply

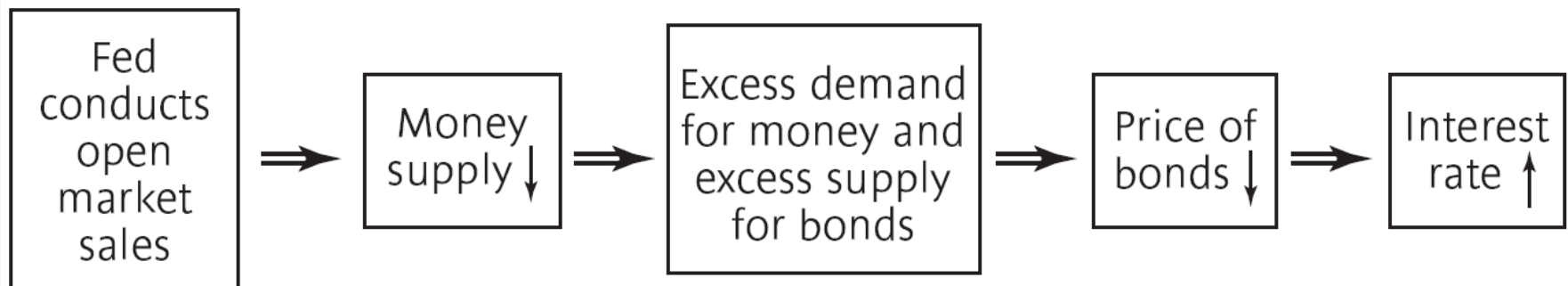
At point E , the money market is in equilibrium at an interest rate of 6 percent.

To lower the interest rate, the Fed could increase the money supply to \$1,600 billion.

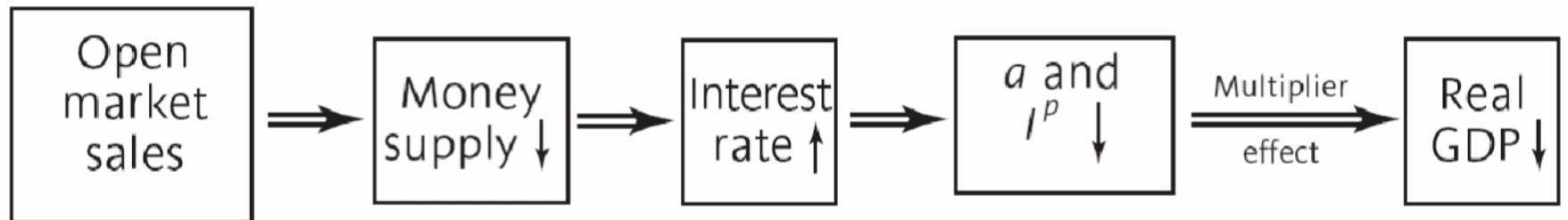
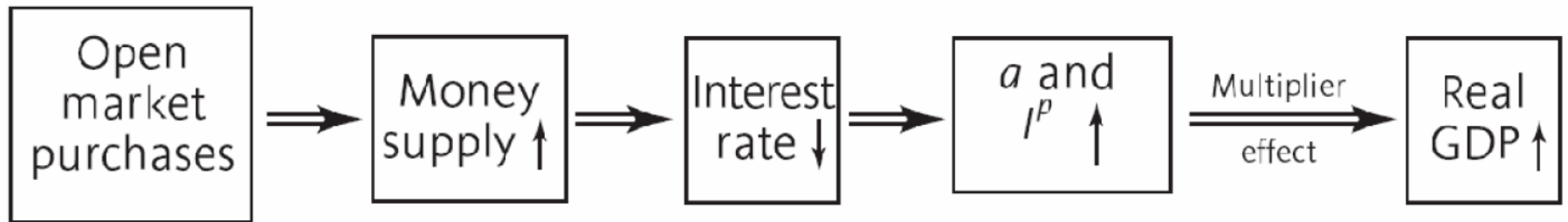


The excess supply of money (and excess demand for bonds) would cause bond prices to rise, and the interest rate to fall until a new equilibrium is established at point F with an interest rate of 3 percent.

What Happens When Things Change?

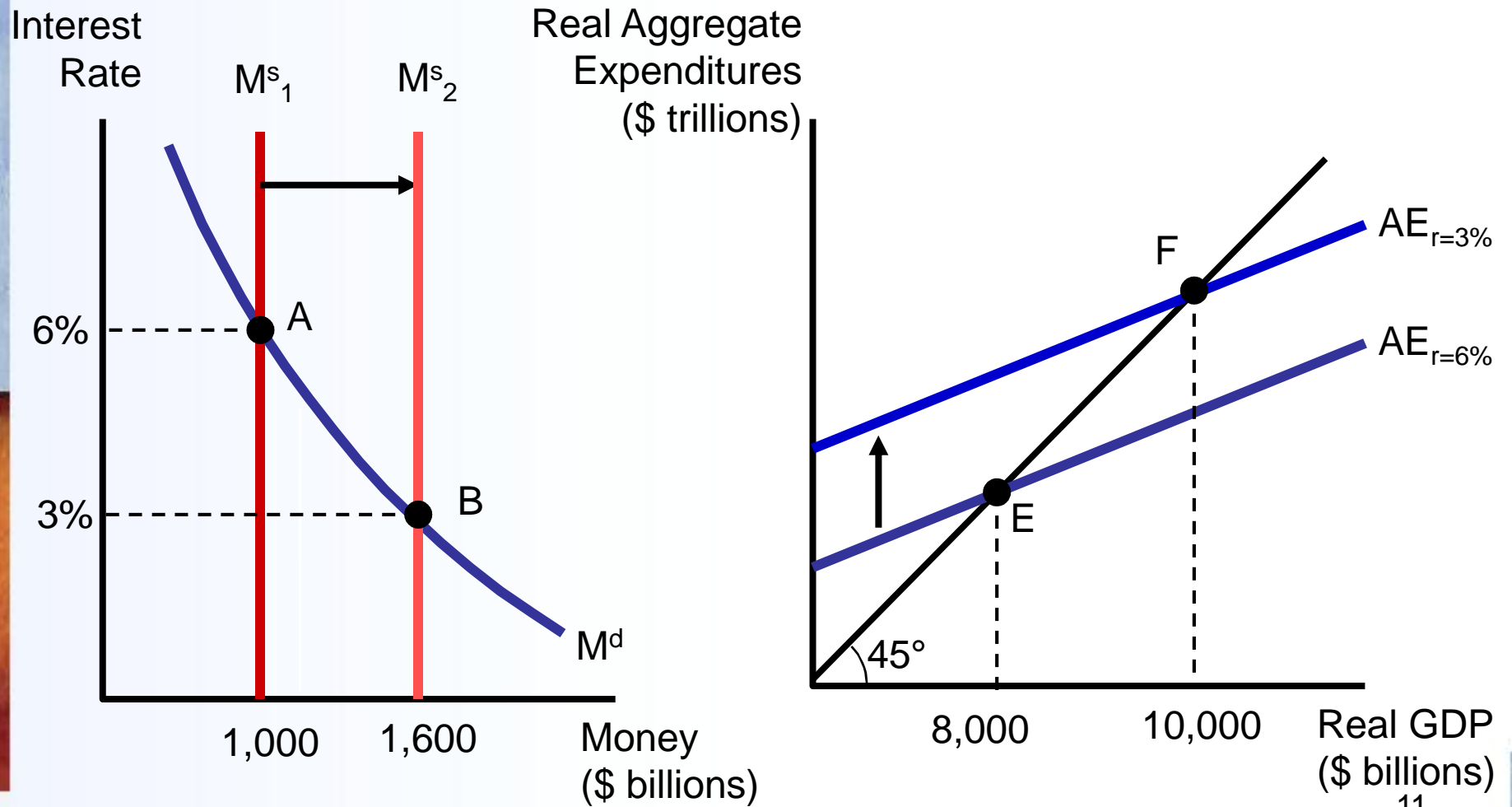


Monetary Policy



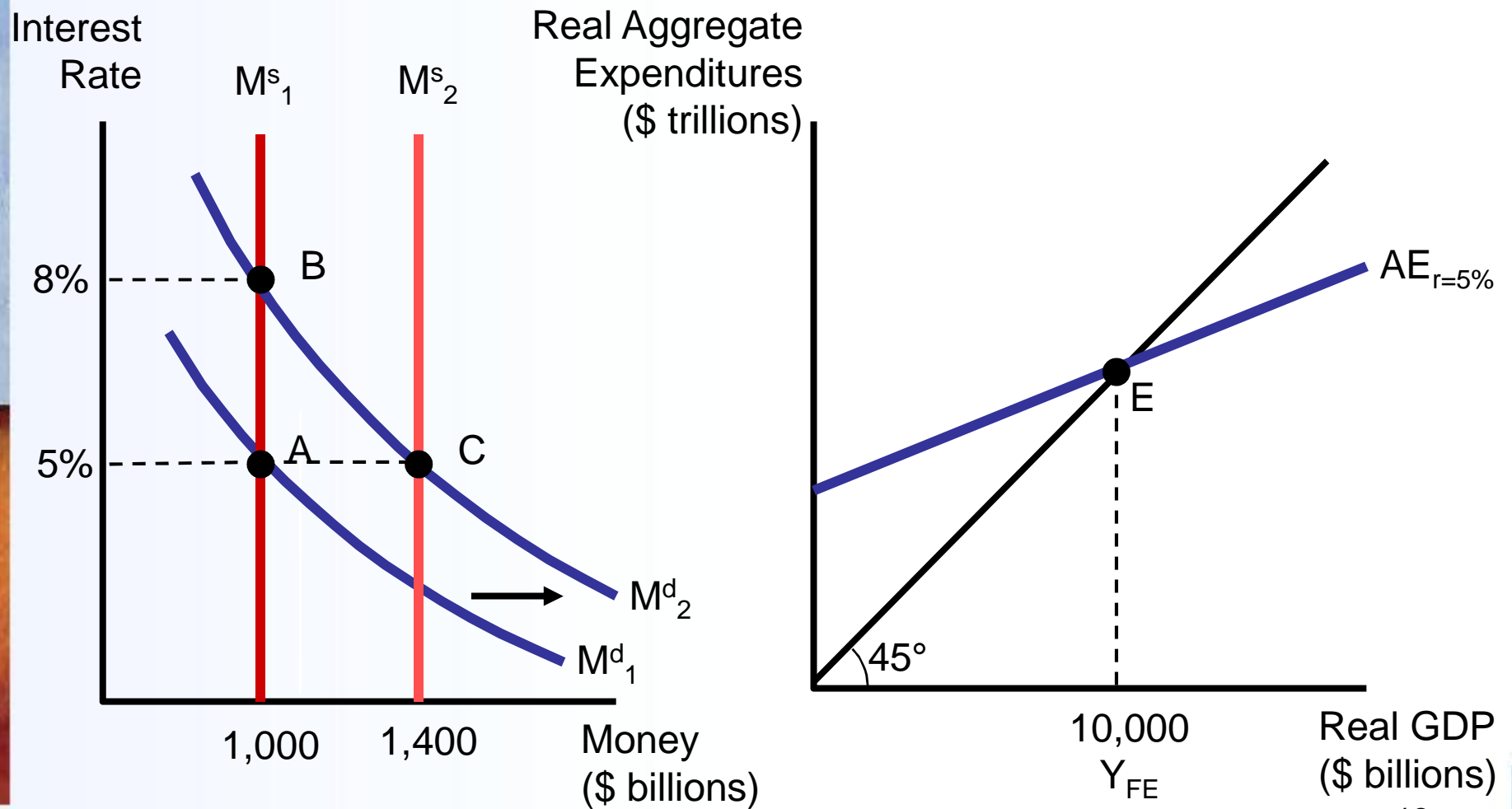
Monetary Policy

- **Figure 7** Monetary Policy and the Economy



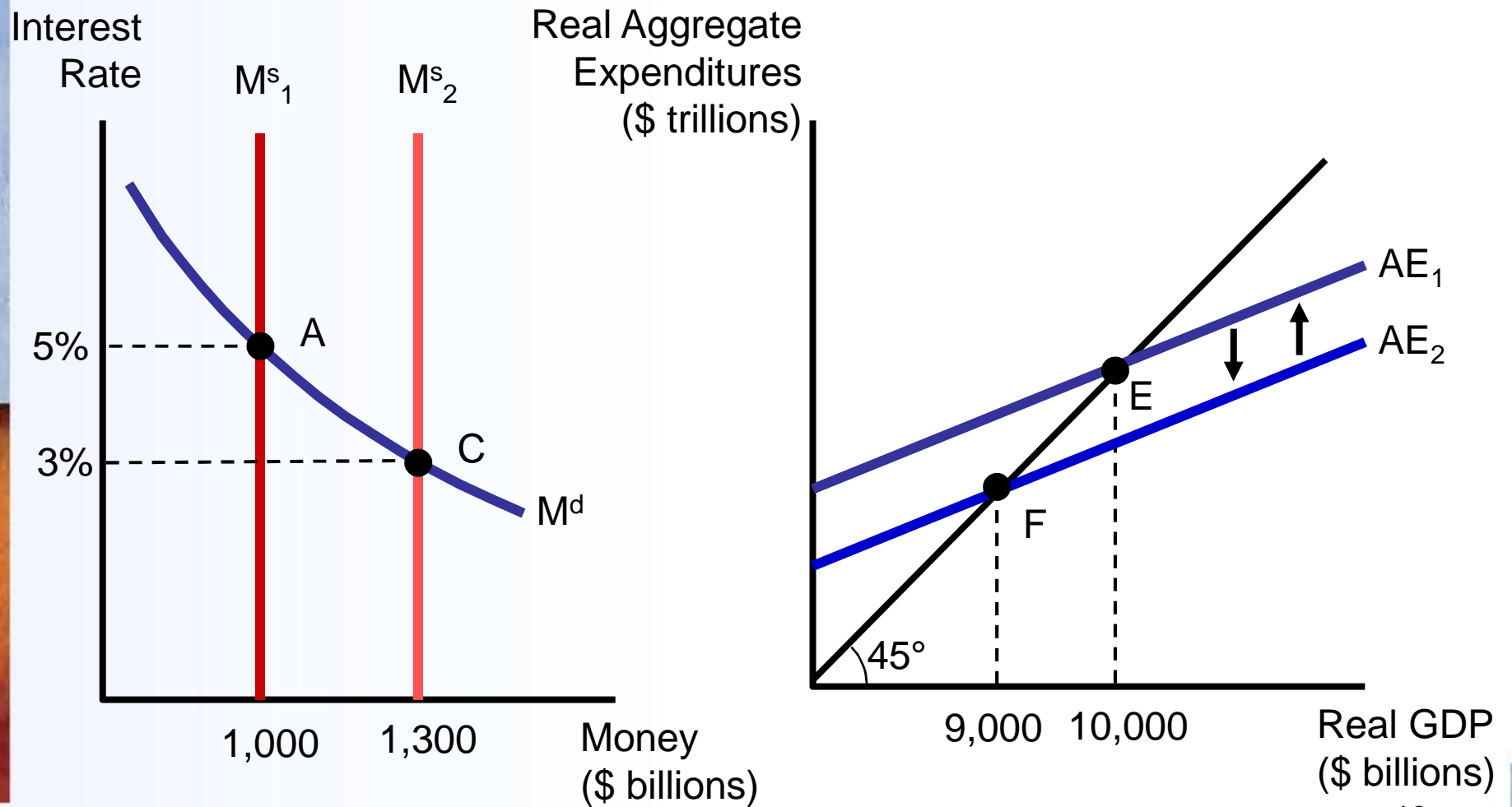
Maintaining an Interest Rate Target

- **Figure 8** Maintaining an Interest Rate Target



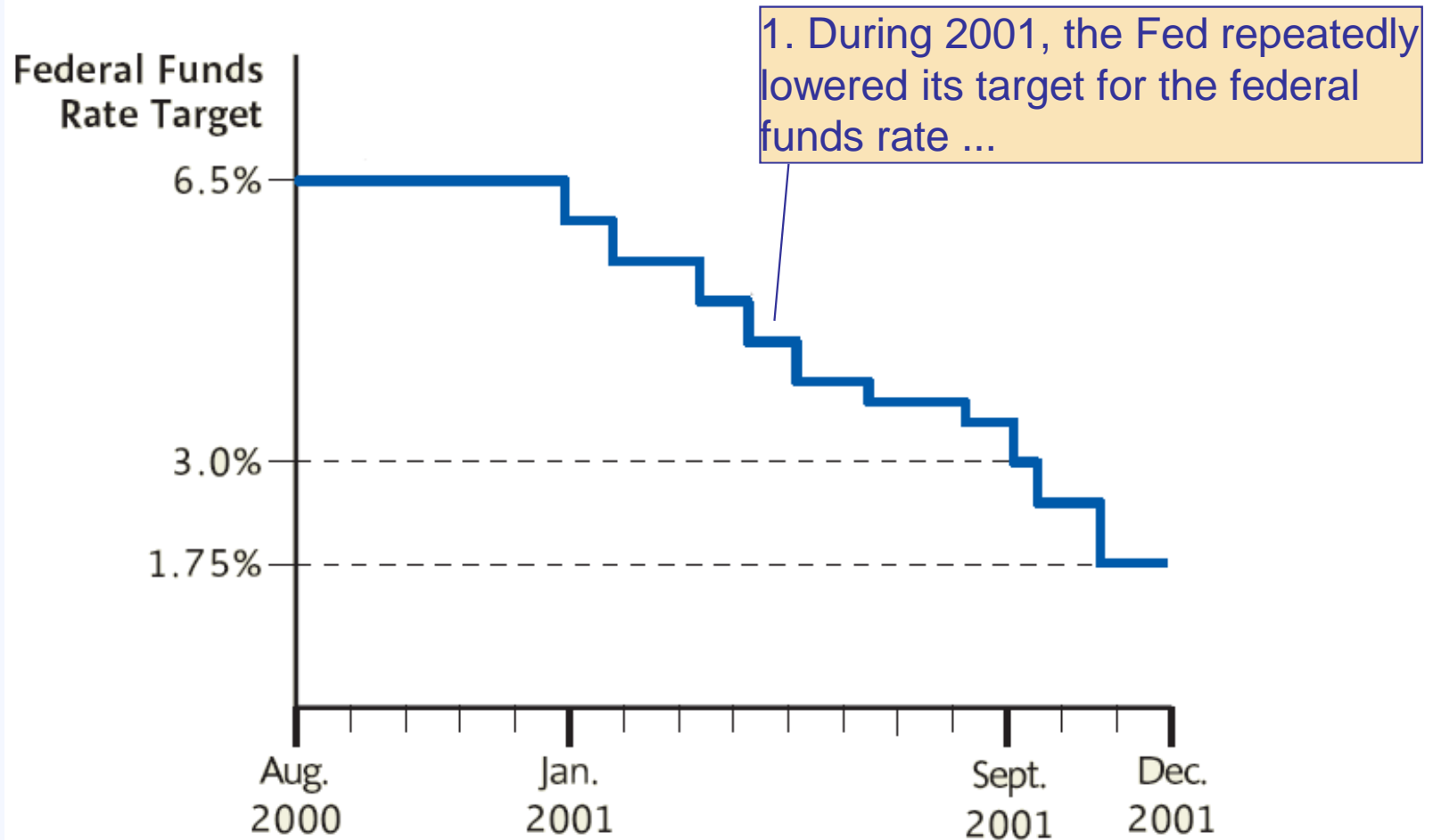
Changing the Interest Rate Target

- **Figure 9** Changing the Interest Rate Target to Prevent a Recession



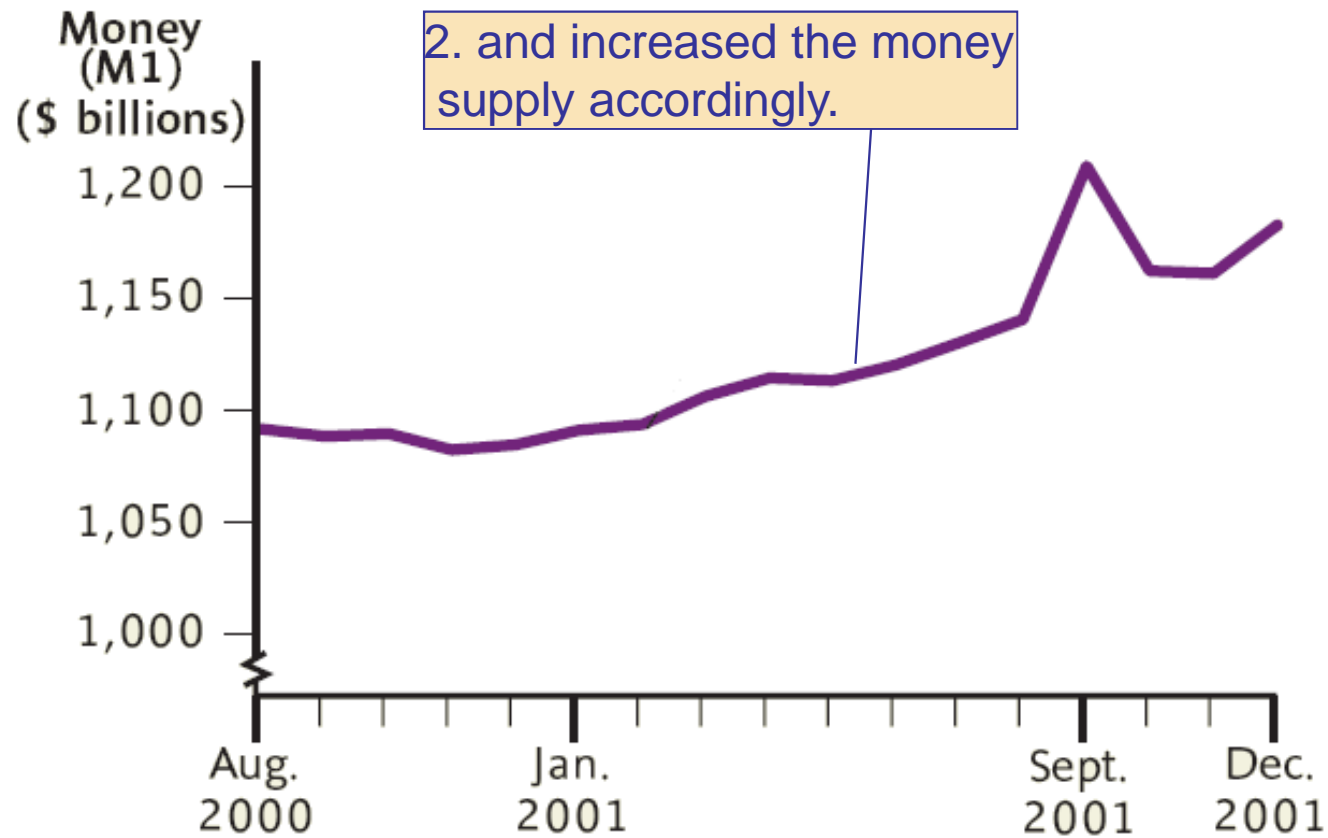
The Fed in Action: 2001

- **Figure 10** The Fed in Action: 2001 (a)



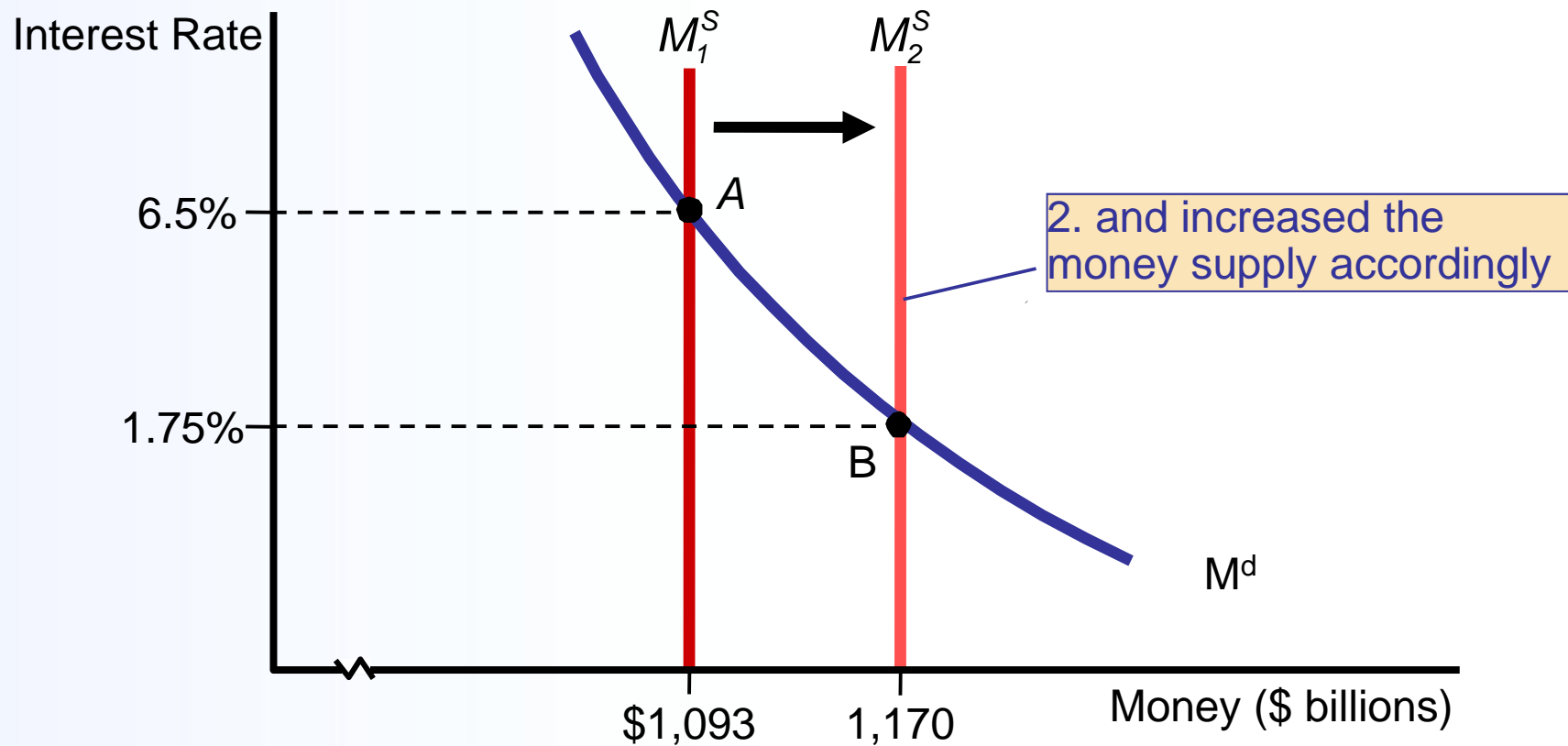
The Fed in Action: 2001

- **Figure 10** The Fed in Action: 2001 (b)



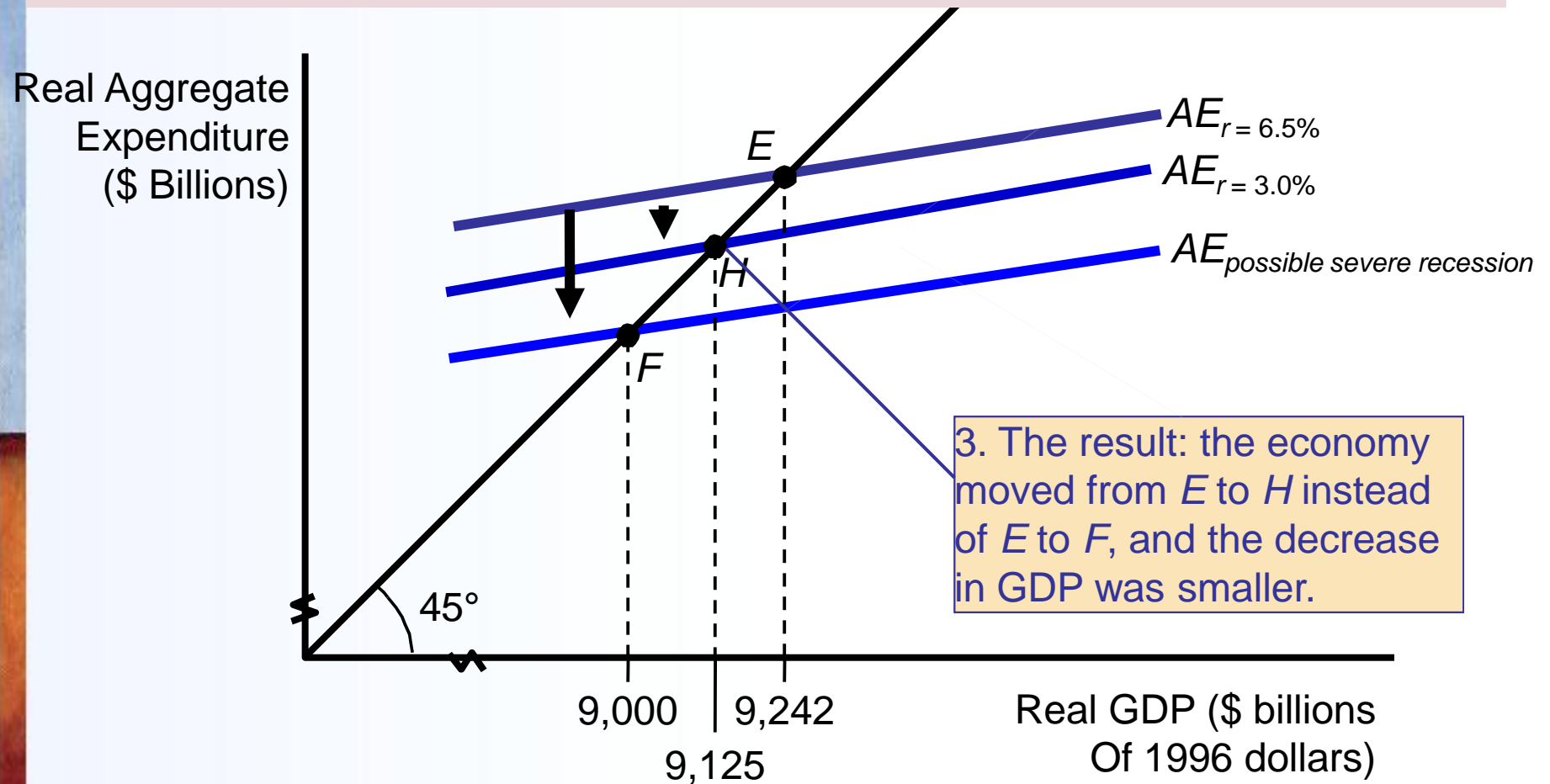
The Fed in Action: 2001

- **Figure 10** The Fed in Action: 2001 (c)



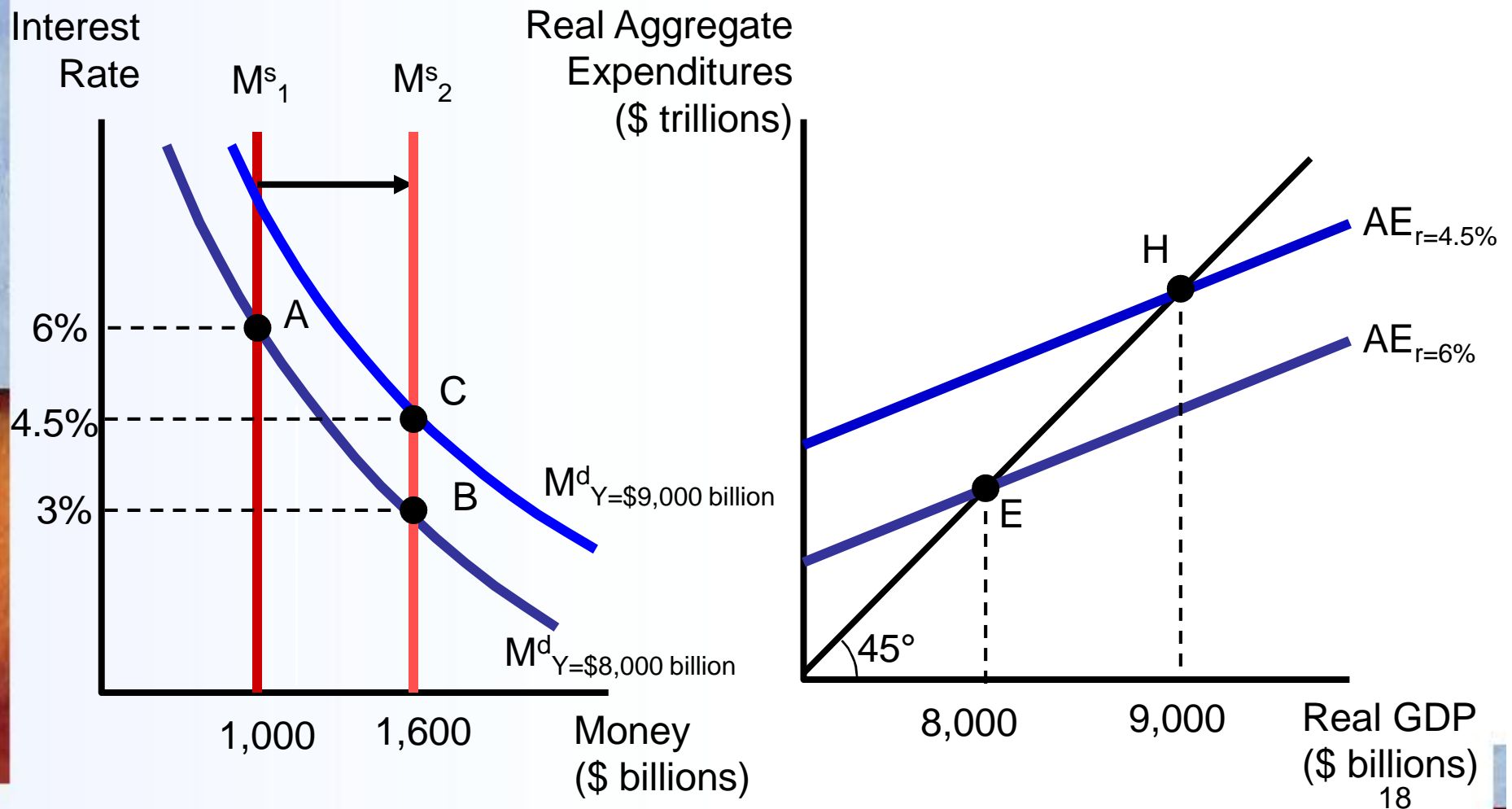
The Fed in Action: 2001

• **Figure 10** The Fed in Action: 2001 (d)



Appendix: Feedback Effects

- Figure A.1 A More Complete View of Monetary Policy



Appendix: Feedback Effects

• **Figure A.2** Fiscal Policy and the Money Market

