

# Chapter 12



## The Money Market and Monetary Policy

ECONOMICS: Principles and Applications, 4e  
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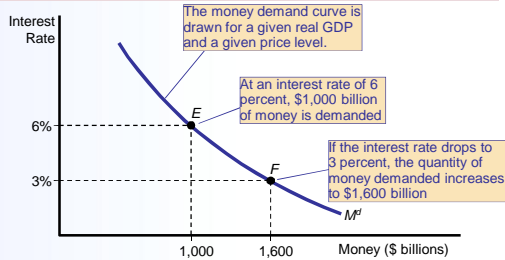
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### The Money Demand Curve

Figure 1 The Money Demand Curve



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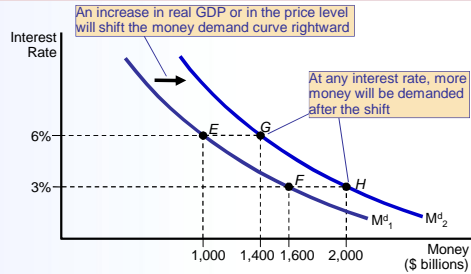
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### Shift in the Money Demand Curve

Figure 2 A Shift in the Money Demand Curve



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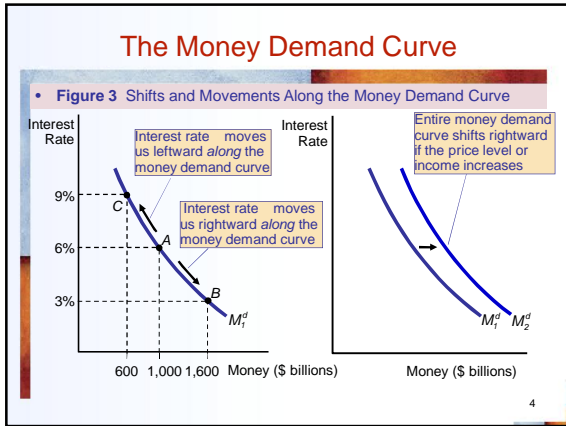
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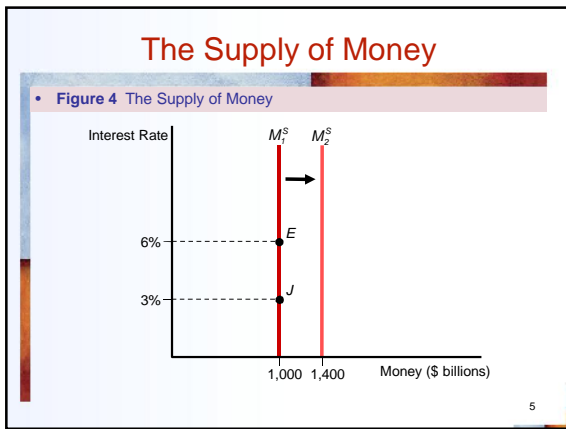
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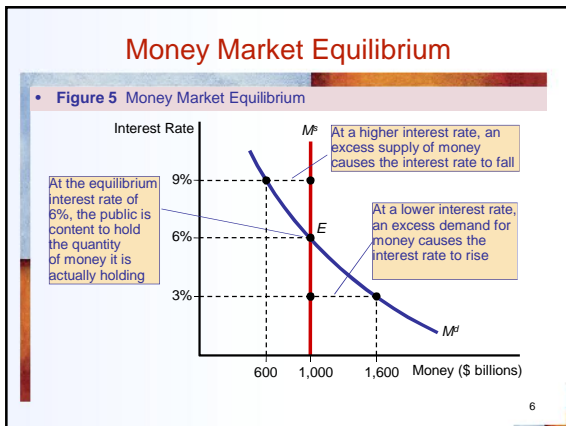
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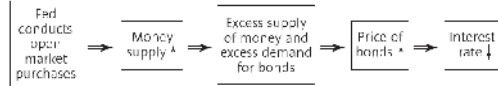
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## What Happens When Things Change?



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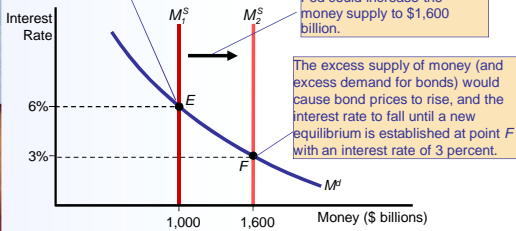
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## An Increase in the Money Supply

• **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.



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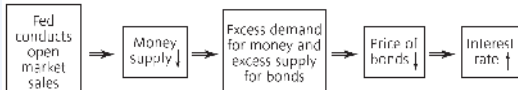
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## What Happens When Things Change?



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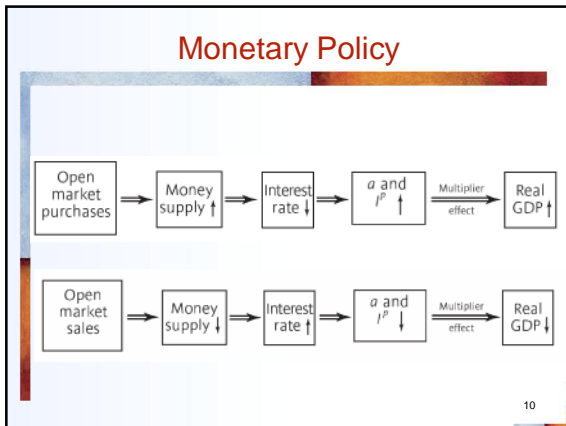
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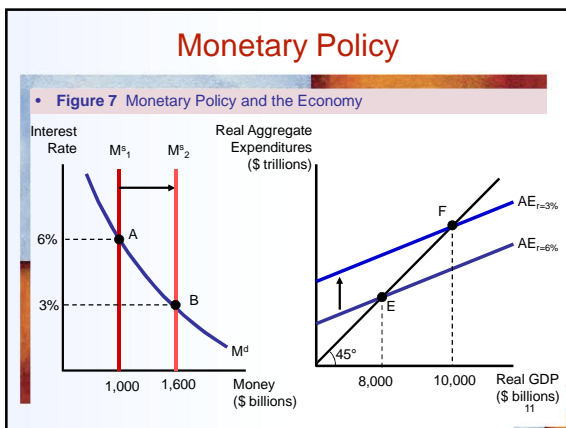
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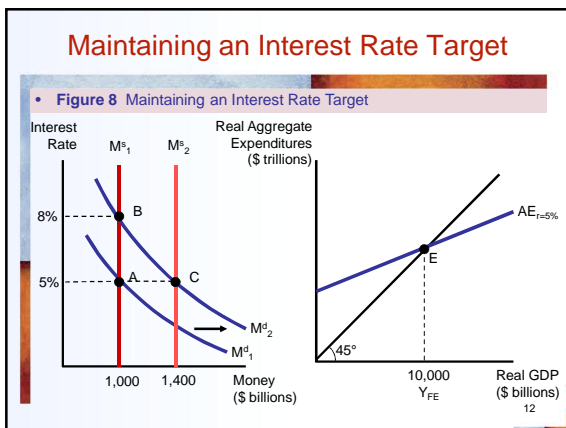
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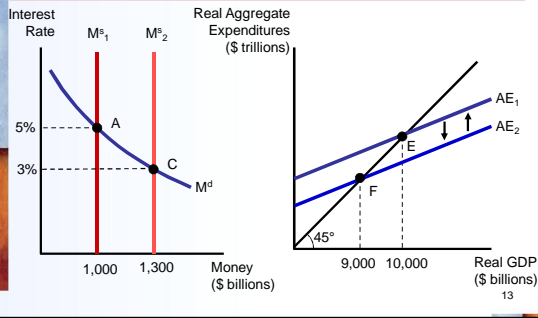
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## Changing the Interest Rate Target

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




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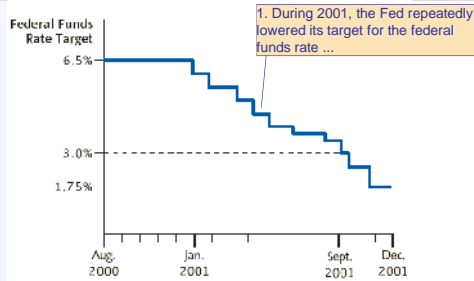
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## The Fed in Action: 2001

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




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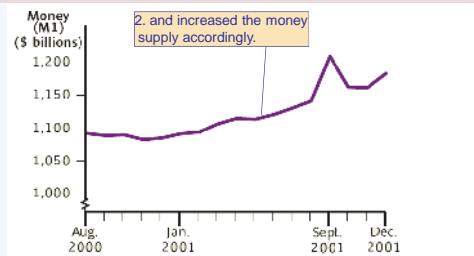
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## The Fed in Action: 2001

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




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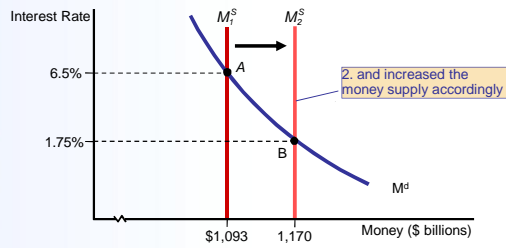
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## The Fed in Action: 2001

• Figure 10 The Fed in Action: 2001 (c)



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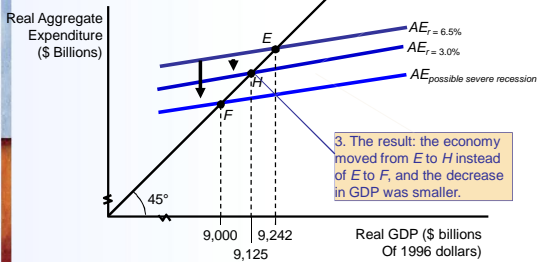
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## The Fed in Action: 2001

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



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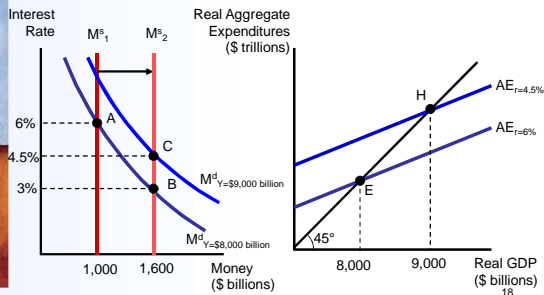
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## Appendix: Feedback Effects

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



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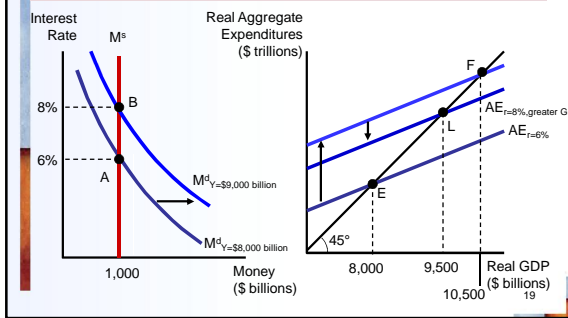
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## Appendix: Feedback Effects

• Figure A.2 Fiscal Policy and the Money Market




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