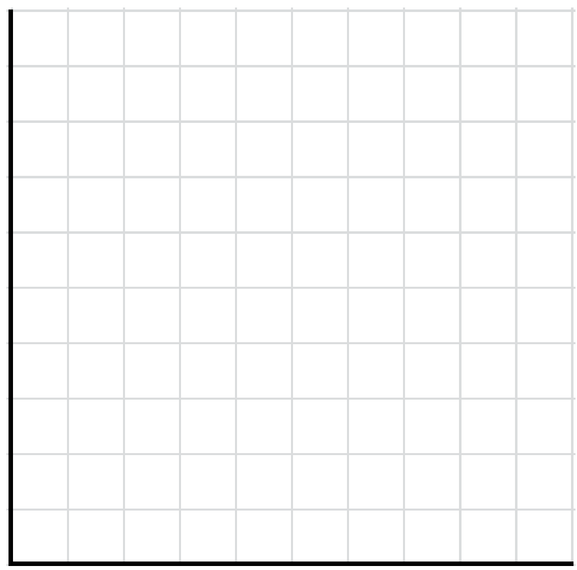
CONCEPT: MONEY DEMAND AND SHIFTS

● ***Theory of Liquidity Preference –*** applying principles of supply and demand to the ________________

- ☐ "Price" of money → ________________
- ☐ "Quantity" of money → ________________

Demand for Money



● The demand curve for money is ____________-sloping ("______") because:

- ☐ You can either hold money or hold a financial asset (such as Treasury bills)

Money _______ buy goods and services	Treasury bills _______ buy goods and services
Money earns _________ interest	Treasury bills earn _________ interest

- ☐ As the interest rate increases, the ___________________ of holding money increases
  - > You hold less cash so you can earn interest

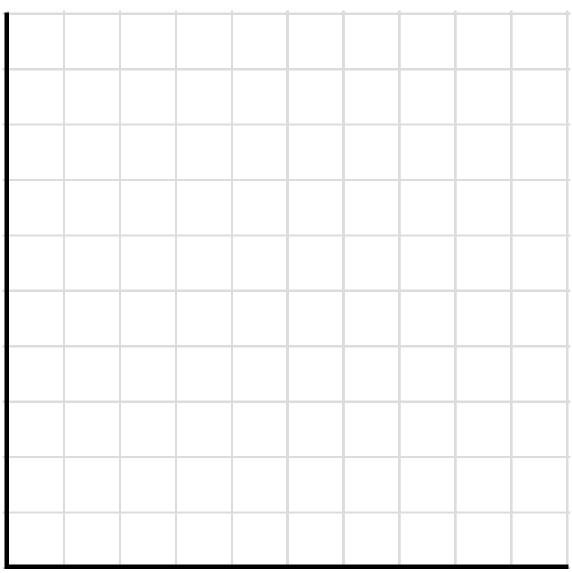
- The demand curve for money can shift just like any other demand curve:
  - ☐ A change in the interest rate (i.e. "price" of money) would only move us along the current demand curve
  - ☐ *Price level* (the general price level in the economy, which is usually measured through the CPI)
    - > Price level increases → Money demand ______________
    - > Price level decreases → Money demand ______________

In the 1950s, you could purchase a meal at McDonalds for approximately $0.50. The same meal would cost about $6.00 today. You will need to hold more money today to buy the same amount of goods.

  - ☐ *Real GDP* (the total quantity of goods and services produced and sold in an economy)
    - > Real GDP increases → Money demand ______________
    - > Real GDP increases → Money demand ______________

When real GDP increases, the quantity of goods and services bought and sold increased, thus more money is needed to make these transactions happen.

Shift Left



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