The Demand for Money, Figure 13.6

Effect of an increase in the interest rate

Effect of a decrease in the interest rate

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Changes in the Demand for Money, Figure 13.7

- **Effect of increase in real GDP**

- **Effect of decrease in real GDP or financial innovation**

The diagram illustrates the relationship between the interest rate (percent per year) and real money (in trillions of 1996 dollars), with three curves labeled $MD_0$, $MD_1$, and $MD_2$. The curves show how changes in real GDP affect the demand for money.
Excess supply of money. People buy bonds and interest rate falls.

Excess demand of money. People sell bonds and interest rate rises.
Interest Rate Changes, Figure 13.10

MS_1, MS_0, MS_2, and MD

An increase in the money supply lowers the interest rate.

A decrease in the money supply raises the interest rate.

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Monetary Stabilization: Avoiding Inflation, Figure 13.12

(a) Money market

(b) Investment

(c) Real GDP and the price level

A decrease in the money supply raises the interest rate.

A rise in the interest rate decreases investment.

Multiplier effect

Decrease in investment

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Monetary Stabilization: Avoiding Recession, Figure 13.13

(a) Money market

An increase in the money supply lowers the interest rate

(b) Investment

A fall in the interest rate increases investment

(c) Real GDP and the price level

Increase in investment
Multiplier effect