

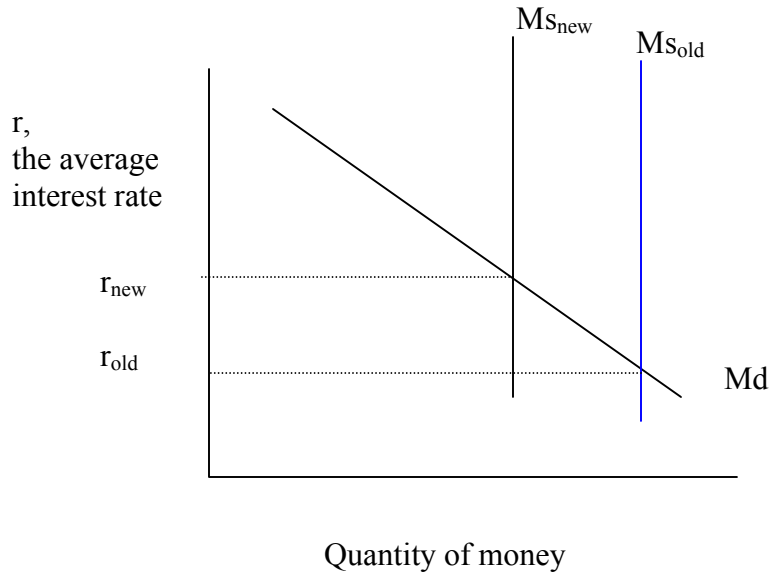
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Principles of Economics

Money Market Study Question

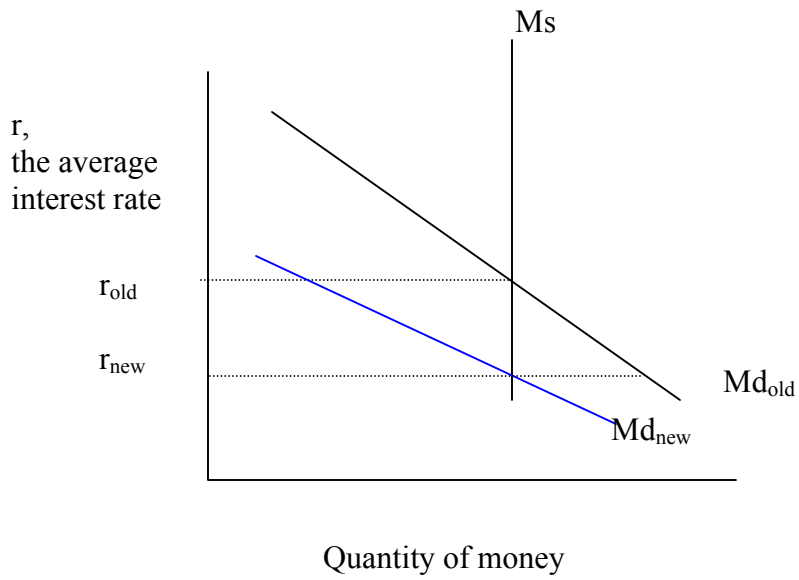
Use 4 money market graphs to illustrate how each of the following (separately) affects the interest rate in an economy.

- a) The Fed sells government securities
- b) There's a recession
- c) Inflation rises
- d) The Fed cuts the required reserve ratio.

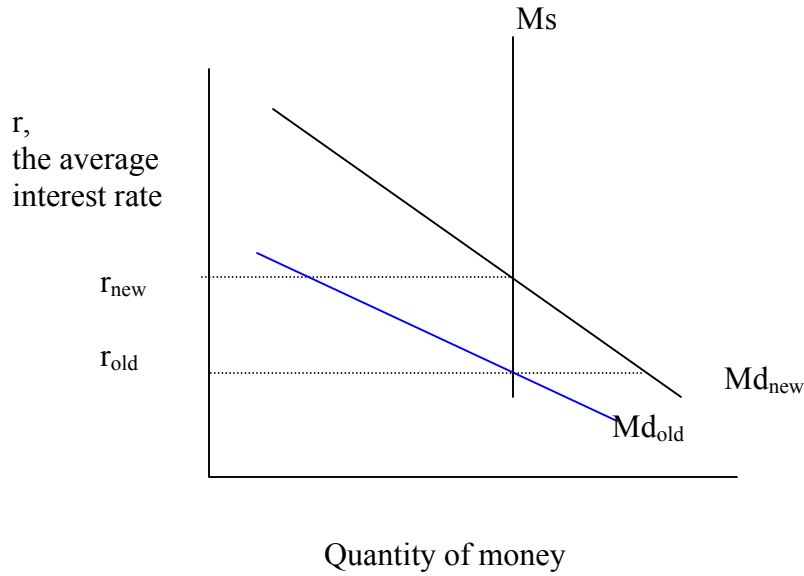
a) This reduces the money supply, causing higher interest rates:



b) This reduction in national income reduces demand for money, reducing interest rates:



c) This increase in prices means more money is required to purchase things, raising money demand, causing interest rates to rise:



d) This frees up money for banks to lend, causing the money supply to increase, causing interest rates to fall:

