



# Lecture Recap

- Money demand  $M^d(Y, i)$

$$M^d = \$Y \times L(i)$$

where  $\$Y = PY$  and  $\frac{dL}{di} < 0$ .



# Lecture Recap

- ▶ Money demand  $M^d(Y, i)$

$$M^d = \$Y \times L(i)$$

where  $\$Y = PY$  and  $\frac{dL}{di} < 0$ .

- ▶ Money supply  $M^s = M$  governed by the Reserve Bank.

# Lecture Recap

- ▶ Money demand  $M^d(Y, i)$

$$M^d = \$Y \times L(i)$$

where  $\$Y = PY$  and  $\frac{dL}{di} < 0$ .

- ▶ Money supply  $M^s = M$  governed by the Reserve Bank.
  - ▶ Open market operations: buying/selling bonds.
  - ▶ expansionary: RB buying bonds, pay with money  $\implies$  increase money supply.
  - ▶ contractionary: RB selling bonds, receives money  $\implies$  decrease money supply.
- ▶ Money Market Equilibrium condition:

$$M^s = M^d \Leftrightarrow M = PY \times L(i)$$

# Lecture Recap

- ▶ Money demand  $M^d(Y, i)$

$$M^d = \$Y \times L(i)$$

where  $\$Y = PY$  and  $\frac{dL}{di} < 0$ .

- ▶ Money supply  $M^s = M$  governed by the Reserve Bank.

- ▶ Open market operations: buying/selling bonds.
- ▶ expansionary: RB buying bonds, pay with money  $\implies$  increase money supply.
- ▶ contractionary: RB selling bonds, receives money  $\implies$  decrease money supply.

- ▶ Money Market Equilibrium condition:

$$M^s = M^d \Leftrightarrow M = PY \times L(i)$$

- ▶ Leverage ratio = Asset / Equity.