

Note: Money Supply & Demand, LM Curve and US Economy Outlook

Money supply and Money demand

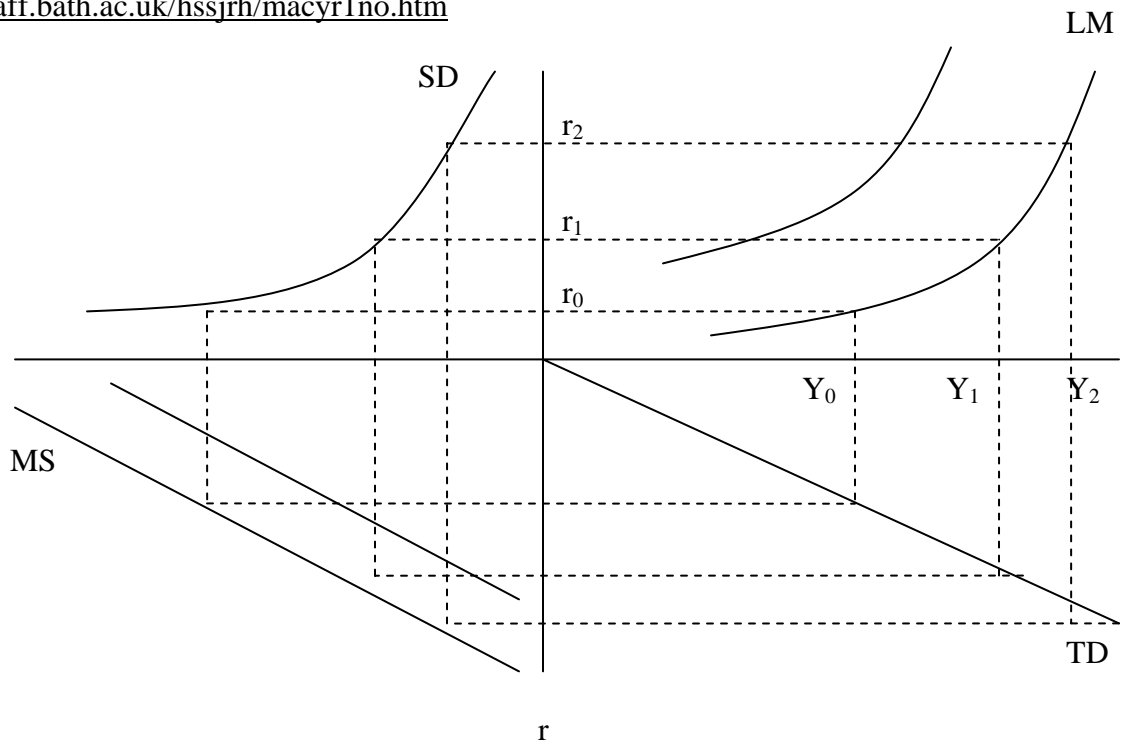
In most narrow useful definition, the money supply is designed *M1* and composed of two items. One is *currency*. That is coins and paper money in the hands of the (nonblank) public. Another is *checking deposit*. These checks are drawn on checking accounts in banks, which are called demand deposits by economists since they are payable to the holder on demand. The money supply (M^S) is fixed by a country's monetary authorities.

Money demand (M^D) is made up of three different components. *Transactions demand* (*TD*) refers to money needed for carrying out purchases on a day-to-day basis. The increase in the country's income causes consumption to rise, and individuals will need more money to facilitate their increased purchases of goods and services. Another component of the demand for money is a *precautionary demand* for money available to meet unexpected needs or emergencies. We have assumed precautionary demand does not vary with interest rate. Finally, there is a *speculative demand* (*SD*) for money. We would not want to hold all its spare resources in stocks and bonds if it thought that stock and bond markets were due for sharp fall. Better to hedge by holding deposits until the danger was past. It is inversely related to interest rate.

LM-Curve

You can download the figure below from Prof. Hudson website.

<http://staff.bath.ac.uk/hssjrh/macyr1no.htm>



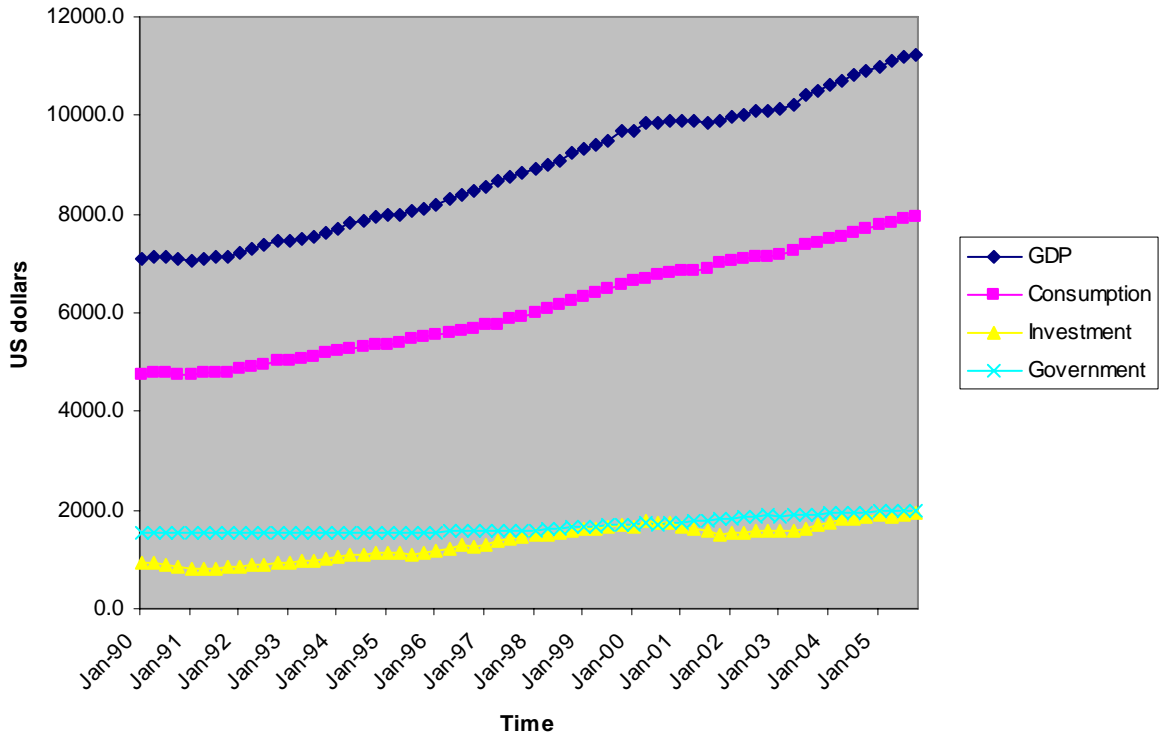
US Economy Overview

Data from The Federal Reserve Bank of St. Louis, USA

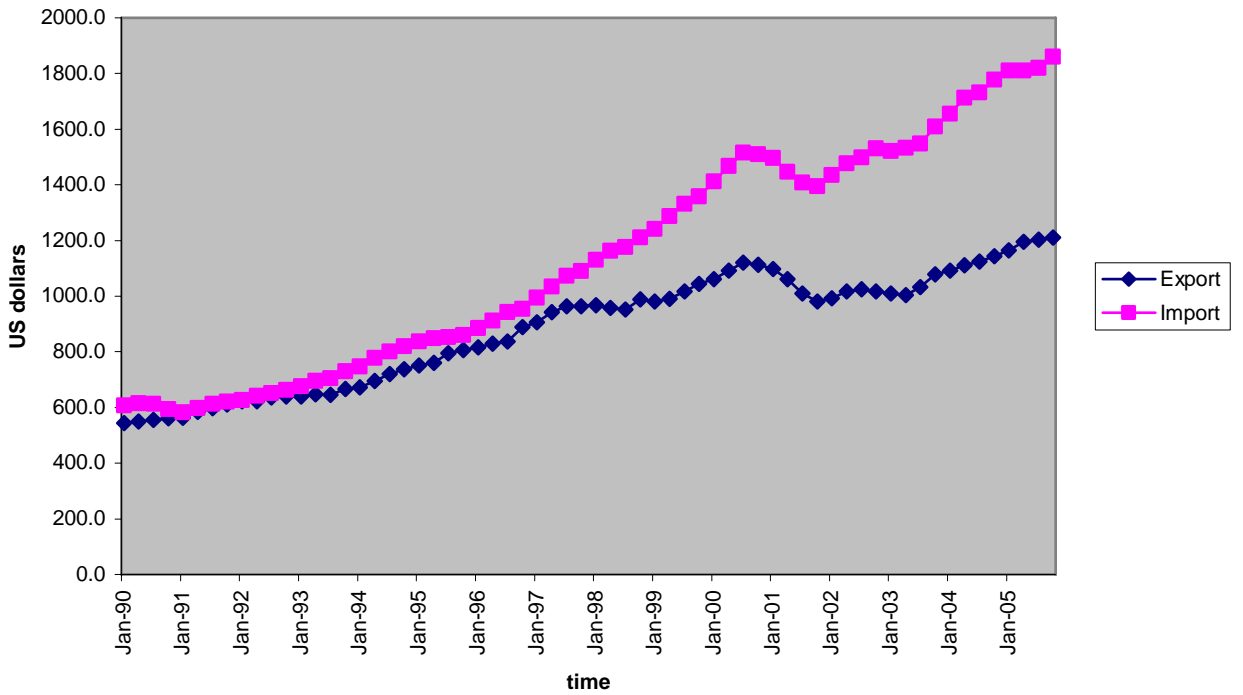
The student must consider the potential of a disastrous fall in the US currency, leading to isolationist US policies, a withdrawal from GATT agreements, the imposition of tariffs to protect the home economy. Access the URL below

http://www.economist.com/opinion/displayStory.cfm?story_id=3446249

US Main Indicators (Real Variables)



US Export&Import (Real Variables)



US Net Export (Real Variable)

