I. NEO-KEYNESIAN SYNTHESIS

A. Liquidity Preference is link between money and our model of Income Determination
   1. Money market: Demand and Supply determine equilibrium interest rate
   2. Investment market: interest rate determines investment spending
   3. Injections-Withdrawals model: Investment is an important component of Injections, helping to determine $Y_e$

B. Effect of changes in the money market depends on elasticity of supply and demand of money, and elasticity of investment demand

II. MONETARY POLICY

A. Introduction: actors, purposes and mechanisms

B. Open Market Operations
   1. affects interest rate
      a. shifts of S and D for bonds affect price of bonds
      b. inverse relationship between price of bonds and interest rate
   2. affects Money Supply
      a. payment for bonds changes reserves
      b. banks create [or destroy] money in response to changes in reserves
   3. and affects, in turn, the real economy

C. Changing the Required Reserve Ratio
   1. increases in the RRR
      a. compelling: banks will have fewer excess reserves
      b. mechanism of "calling in loans"
      c. contractionary
   2. decreases in the RRR
      a. enabling: banks need not act if have excess reserves
      b. but they can expand their loans
      c. expansionary

D. Changing the Discount Rate [charged when Fed loans reserves to banks]
   1. influences banks' willingness to make loans [& thus create money]
   2. important signalling device of Fed's intentions