PENANG SANGAM HIGH SCHOOL
P.O.BOX 44, RAKIRAKI

LESSON NOTES

Subject: Economics **Year/Level:** 12

Week 17

Strand	3	Macroeconomics
Sub Strand	3.1.4	Money Supply
Content Learning Outcome	Value money as the medium of exchange.	

Greetings to all…

In the last lesson we looked at Money demand, now let's look at Money Supply.

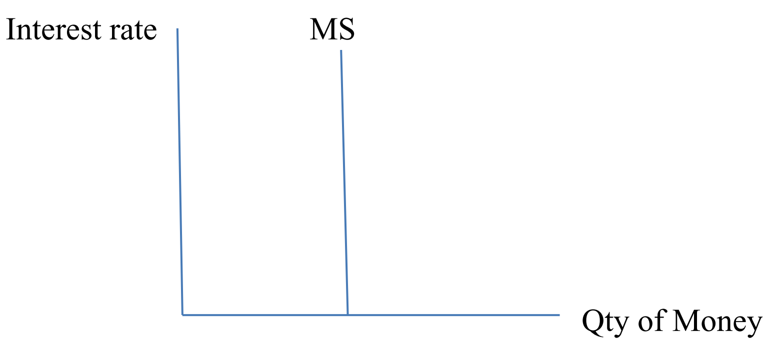
Lesson Notes (Copy notes in your note book)

Money Supply

Is the total amount of money circulation in the economy.

(Remains constant irrespective of changes in interest rate as it is set and maintained by the Reserve Bank of Fiji. Therefore, represents as a Vertical Line).

Money Supply Curve



Factors affecting Money Supply

Factors	Explanation
1. Open Market Operations (OMO's)	➢ Refers to the buying and selling of government bonds or securities by Reserve Bank. ➢ If **Reserve Bank sells** government bonds/ securities to the public then **money supply decreases** as public will withdraw money from the Commercial Banks it will reduce the monetary base. ➢ If **Reserve Bank buys** government bonds/ securities then **money supply increases.**
2. Reserve Ratio (RR)	➢ Is the percentage of total deposits which is kept as reserves by the commercial banks. ➢ If **Reserve Ratio increases** will lead to decrease in lending ability of banks that is less investment as such **money supply decreases**. ➢ If **Reserve Ratio decreases** will lead to increase in lending ability of banks that is more investment as such **money supply increases.**
3. Interest Rate	➢ Is the cost of borrowing money. ➢ **Increase in interest rate** will discourage investment leading to a **fall in Aggregate demand and money supply**. ➢ **Decrease in interest rate** will encourage investment leading to **increase in Aggregate demand and money supply**.

Now you can analyze the difference between money demand and money supply.

Stay Safe……..