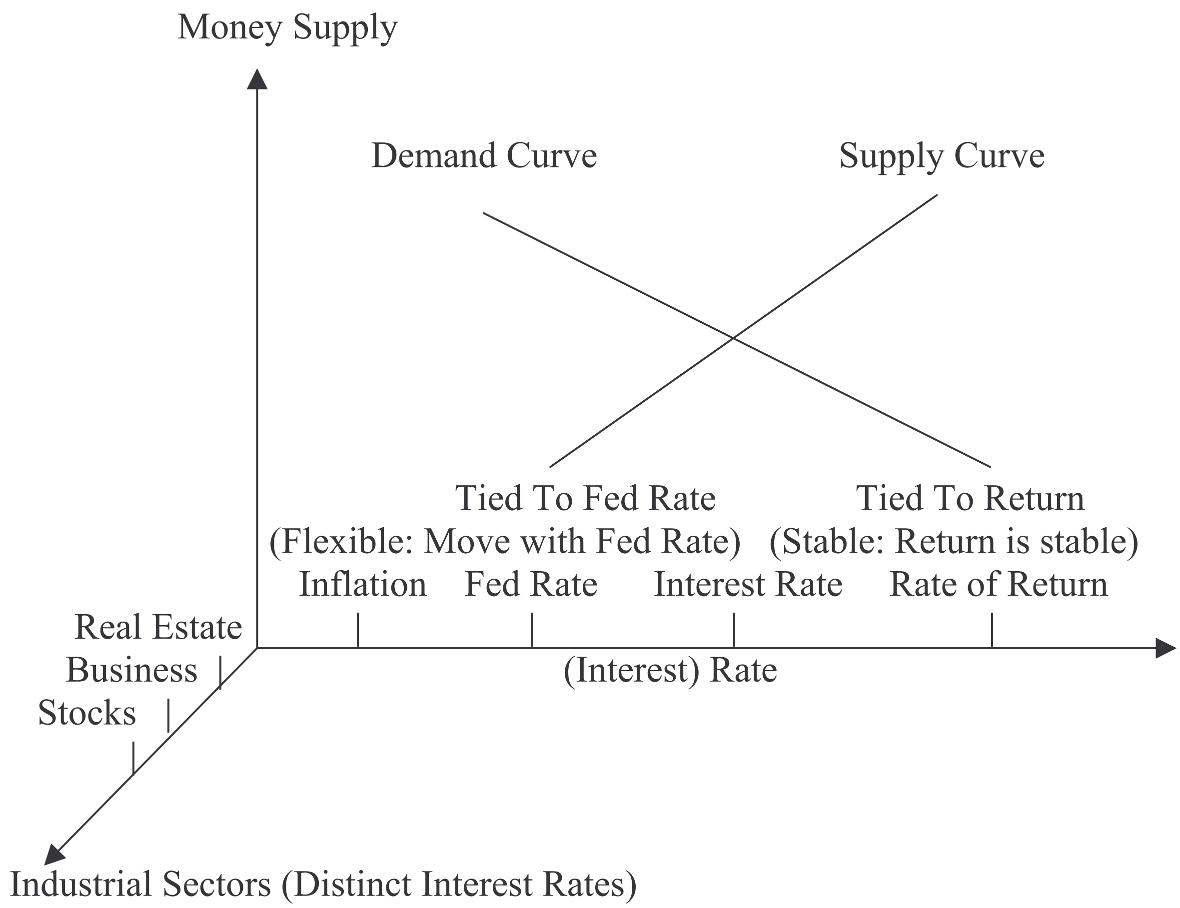
Supply And Demand of Money (Quantity) vs. Interest Rate (Price)



How To Set The Interest Rate

The supply and demand model for money supply can be quantified based on a complete survey of all the industrial sectors according their rates of returns. Generally, the inflation rate, the interest rate, and the rate of return are different for different industries. They must be individually determined.

The Demand Curve is tied to the rate of return. The rate of return can be calculated by the Infinite Spreadsheet. The rate of return is an approximate time invariant; it changes very gradually with the long term interest rate. It reflects the market demand for money. The Supply Curve can be flexibly shifted by the change of the Fed Rate. The Fed Rate is constrained by the inflation at the lower end and the rate of return at the upper end.