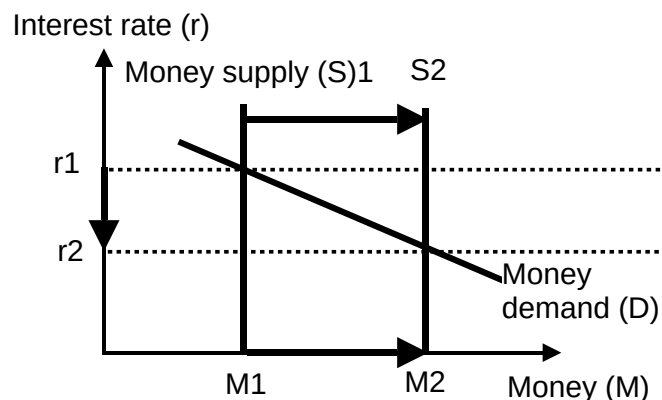


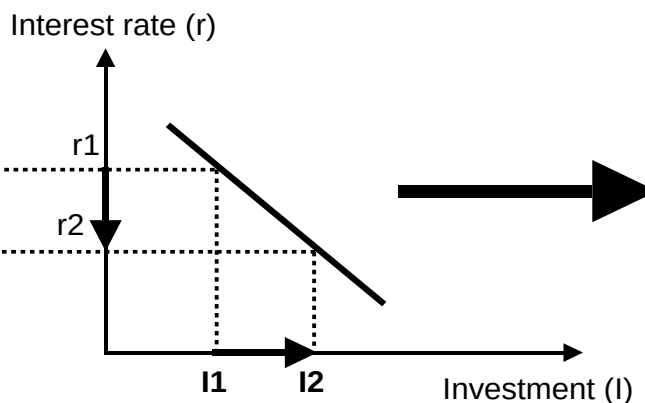
Monetary Transmission Mechanism and Liquidity Trap

1 Monetary transmission mechanism (in the case of a recession)

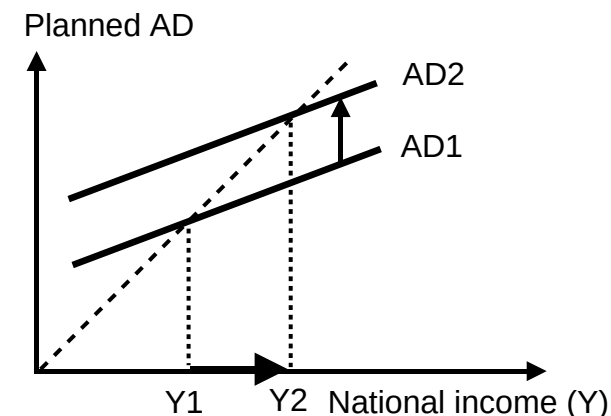
11 Money market



12 Investment

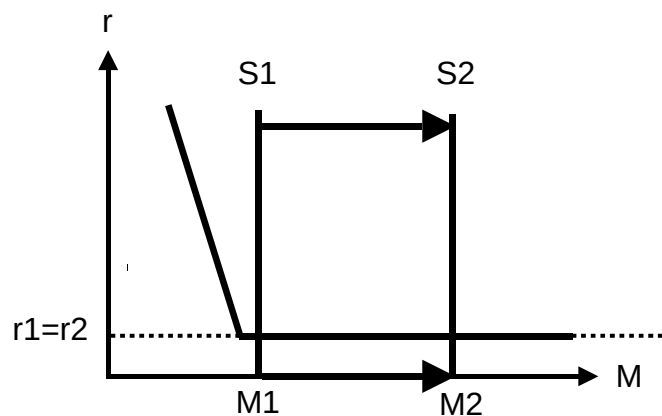


13 Aggregate demand ($C+I+G+X-M$)

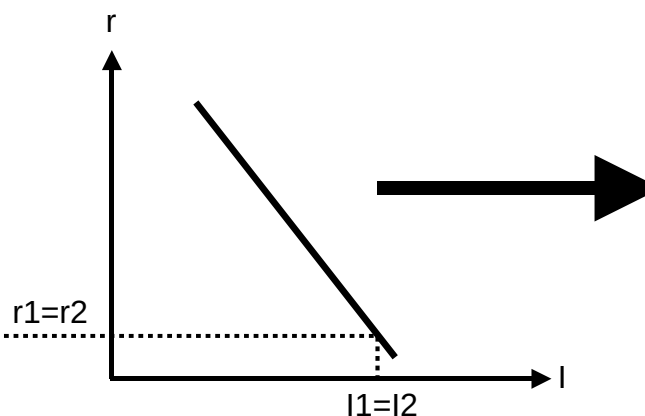


2 Liquidity Trap: Interest rates are so low that people only hold cash and no interest bearing assets. Monetary policy is ineffective.

21 Money market



22 Investment



23 Aggregate demand ($C+I+G+X-M$)

