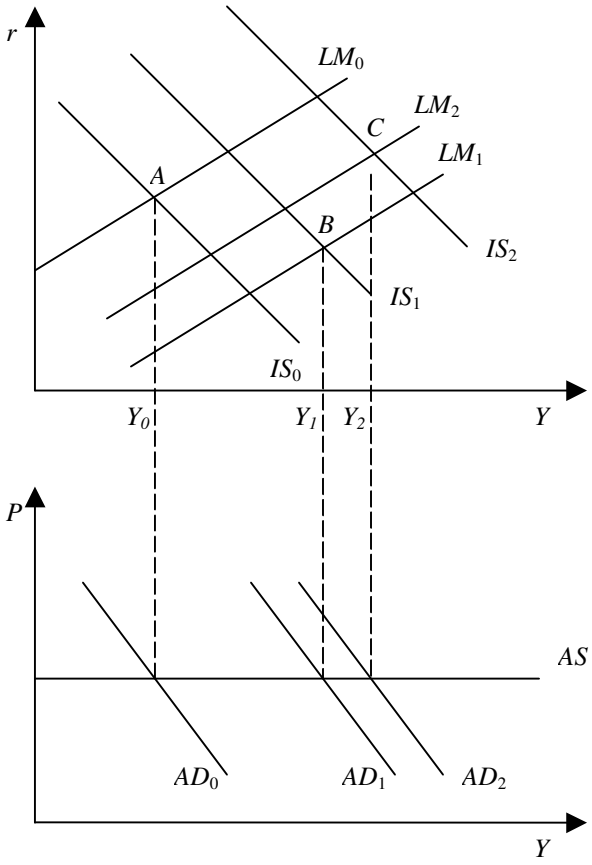

Figure 1: A Money-financed increase in real government spending with wealth effects

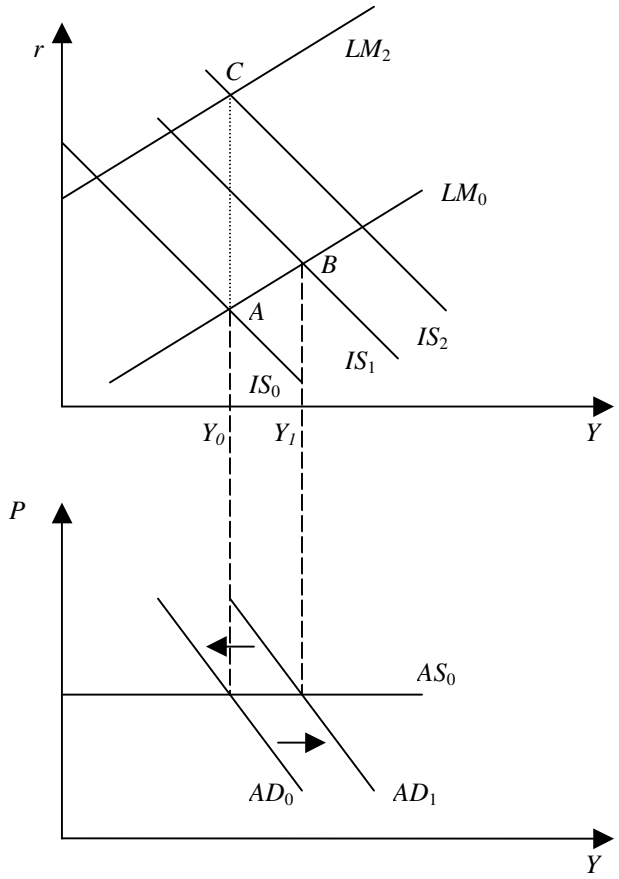

Figure 2: A Bond-financed increase in real government spending with wealth effects

COMMERCIAL BANKS

Assets	Liabilities
Treasury bills: +100	Treasury deposits: +100
Treasury bills: +100	Households deposits: + 100

Table 1: A bond-financed increase in real government spending without banknotes

COMMERCIAL BANKS

Assets	Liabilities
Reserves: +100	Households deposits: +100
Reserves: 0	Households deposits: 0

CENTRAL BANK

Assets	Liabilities
Treasury bills: +100	Banks deposits: +100
Treasury bills: +100	Banknotes: +100

Table 2: A bond-financed increase in real government spending with banknotes

COMMERCIAL BANKS

Assets	Liabilities
Reserves: +100	Households deposits: +100

CENTRAL BANK

Assets	Liabilities
Treasury bills: +100	Treasury deposits: +100
Treasury bills: +100	Bank deposits: + 100

Table 3: A money-financed increase in real government spending