

# Money Supply, Asset Prices, and Interest Rates within a General Equilibrium Framework\*

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**Abstract.** We construct a pure exchange economy model with money supply to examine the nominal and real interest rate processes. Our model is flexible enough to give a theoretical explanation on the positive correlation of the nominal rate and the negative correlation of the real rate with the economic growth rate in a unified framework. We also present some examples of our model's applications, ex. shadow rate and Taylor rule.

**Keywords:** Nominal interest rate, Real interest rate, Money supply, Shadow rate, Taylor rule.

**JEL classification:** E43, E31, E51, G12

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