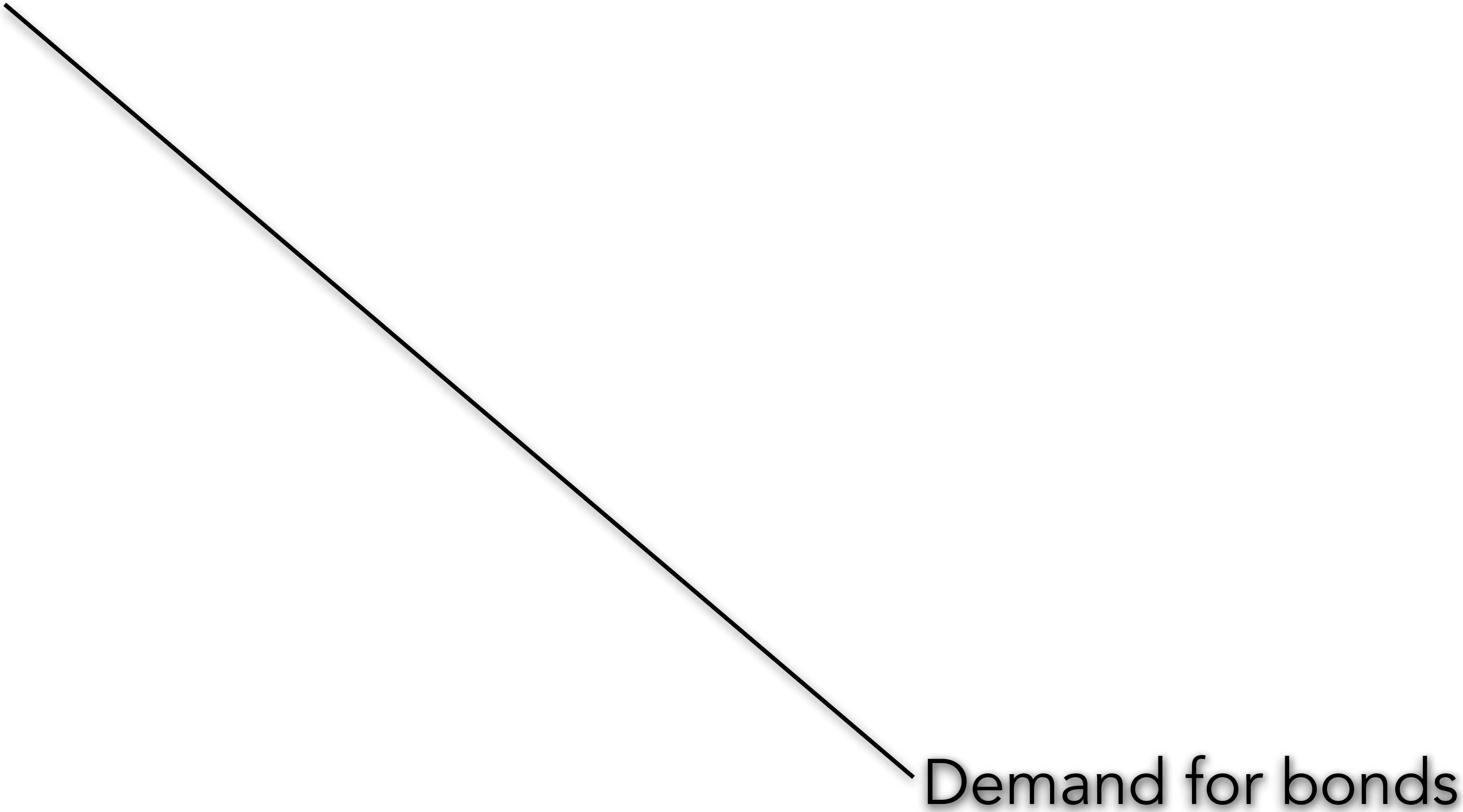

Demand for bonds

Quantity
of Bonds

S_0

Bond Price

The effect of a sale of bonds by the Fed on the Bond Market

Fed sells Bonds

Increases the amount of bonds available for sale in the Open Market

The Supply of bonds
increase

A rightward shift in the Supply of bonds

Assume the Bond Market starts at equilibrium

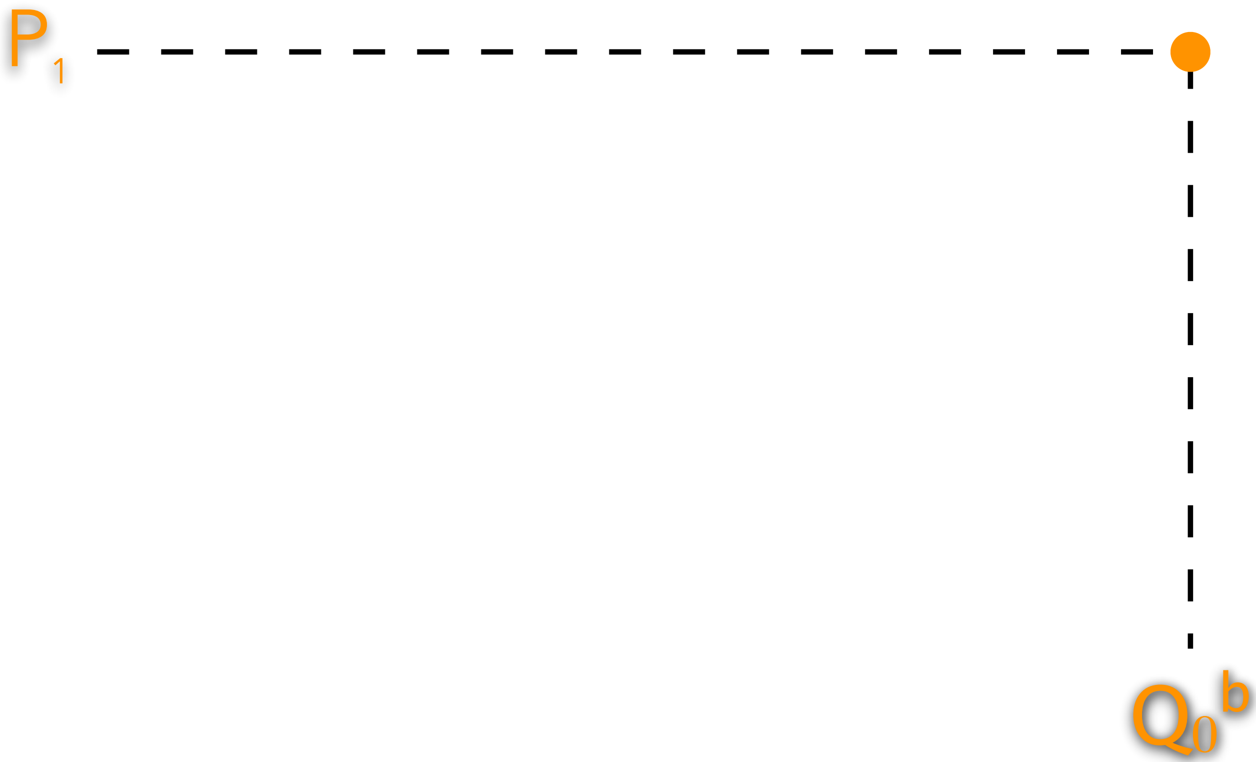

P_e
Q_0^b

S_1

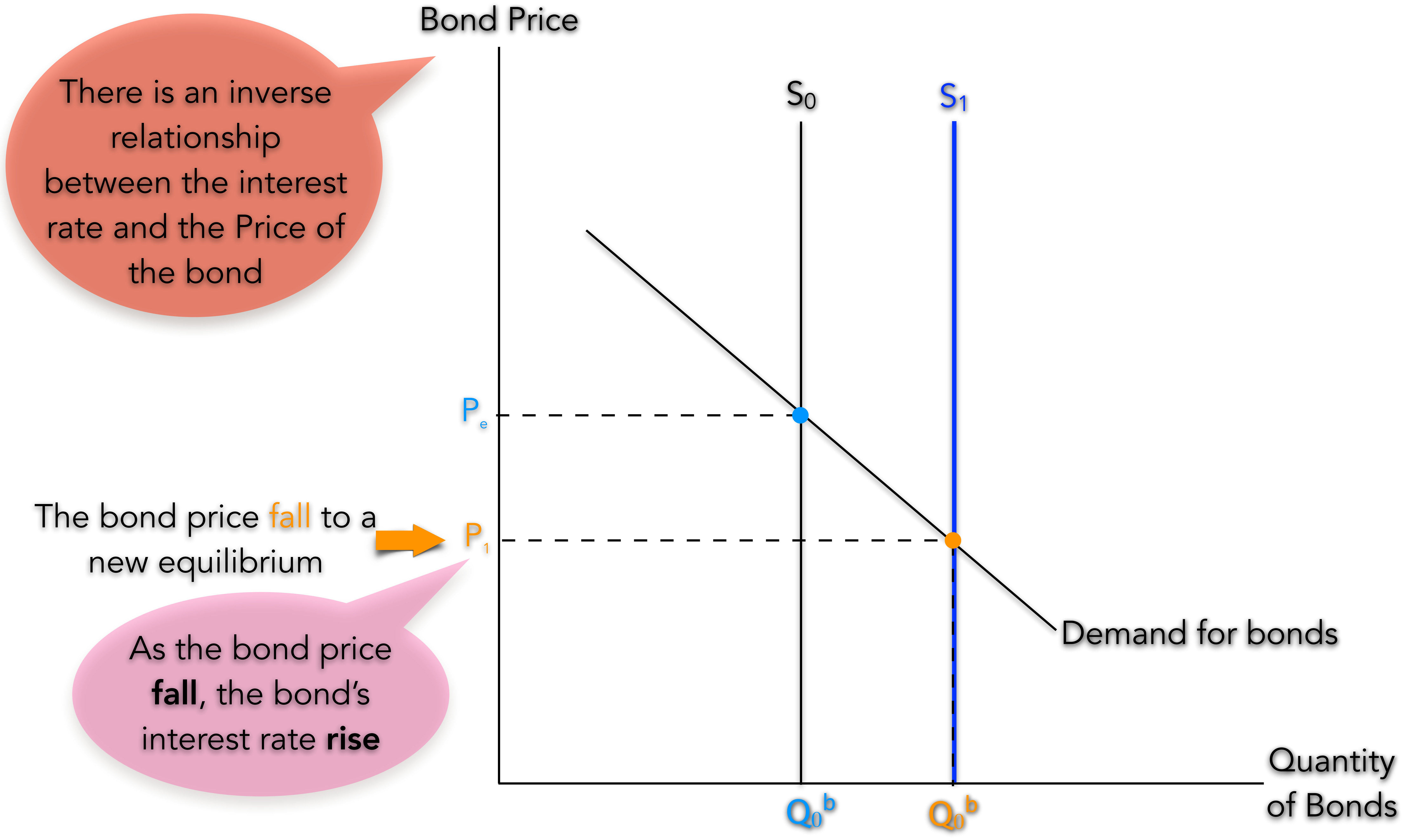
The bond price fall to a new equilibrium

As the bond price **fall**, the bond's interest rate **rise**

There is an inverse relationship between the interest rate and the Price of the bond


P_1
Q_0^b

The effect of a sale of bonds by the Fed on the Bond Market



Fed sells Bonds

Increases the amount of bonds available for sale in the Open Market

The Supply of bonds increase