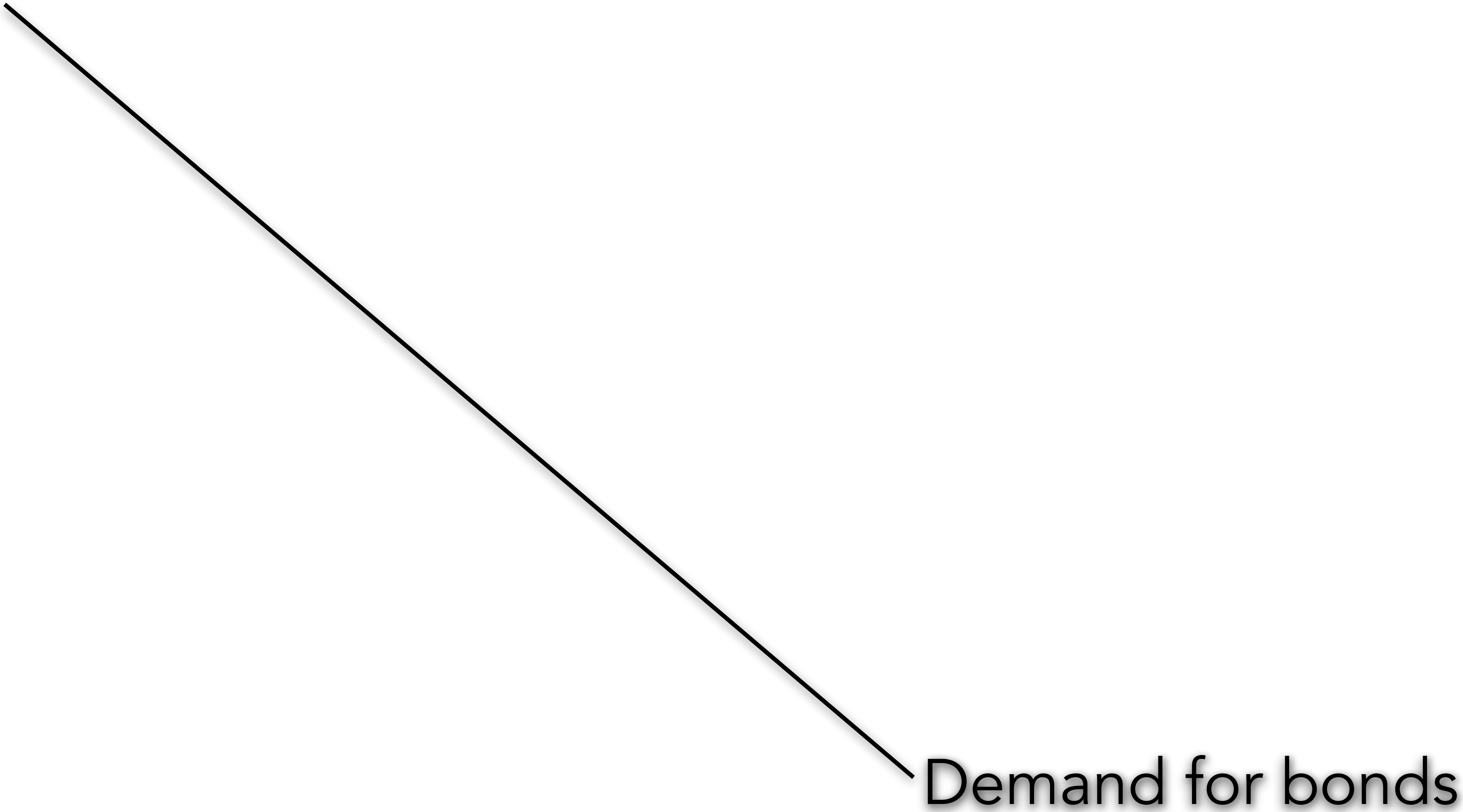

Demand for bonds

Quantity
of Bonds

S_0

Bond Price

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

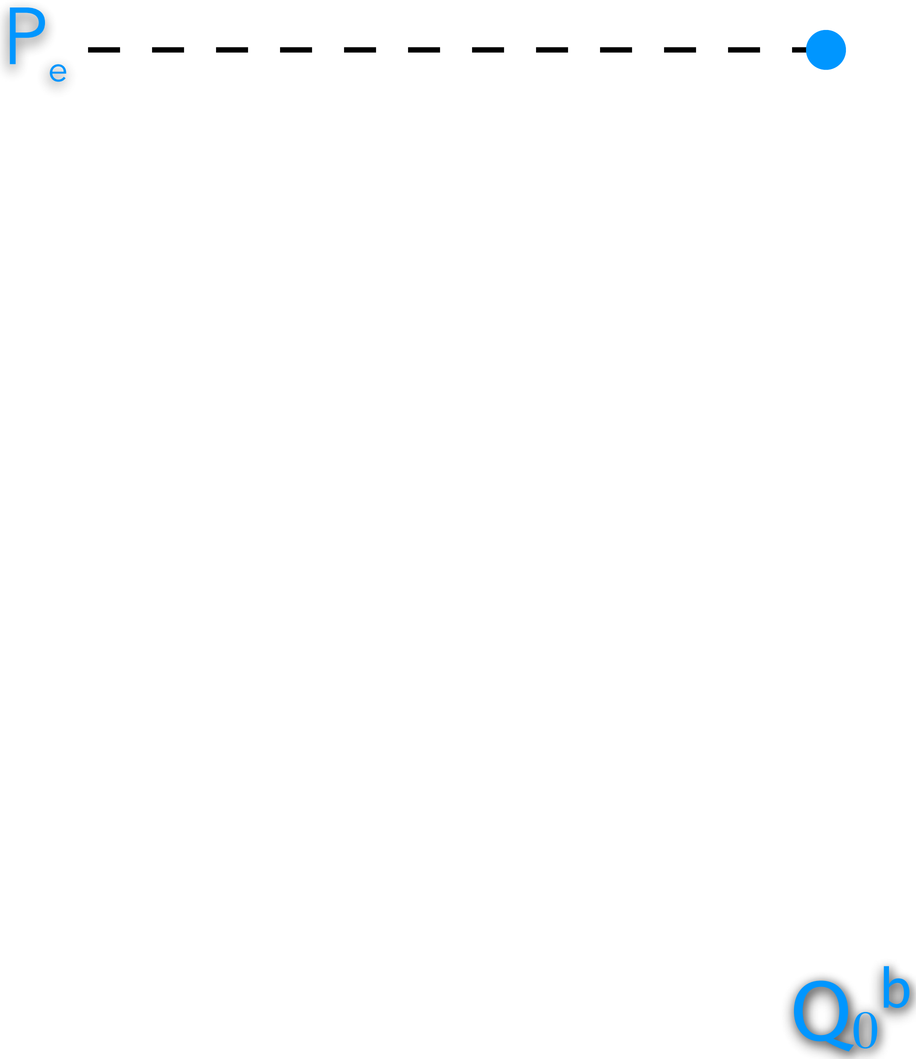
Fed buys Bonds

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

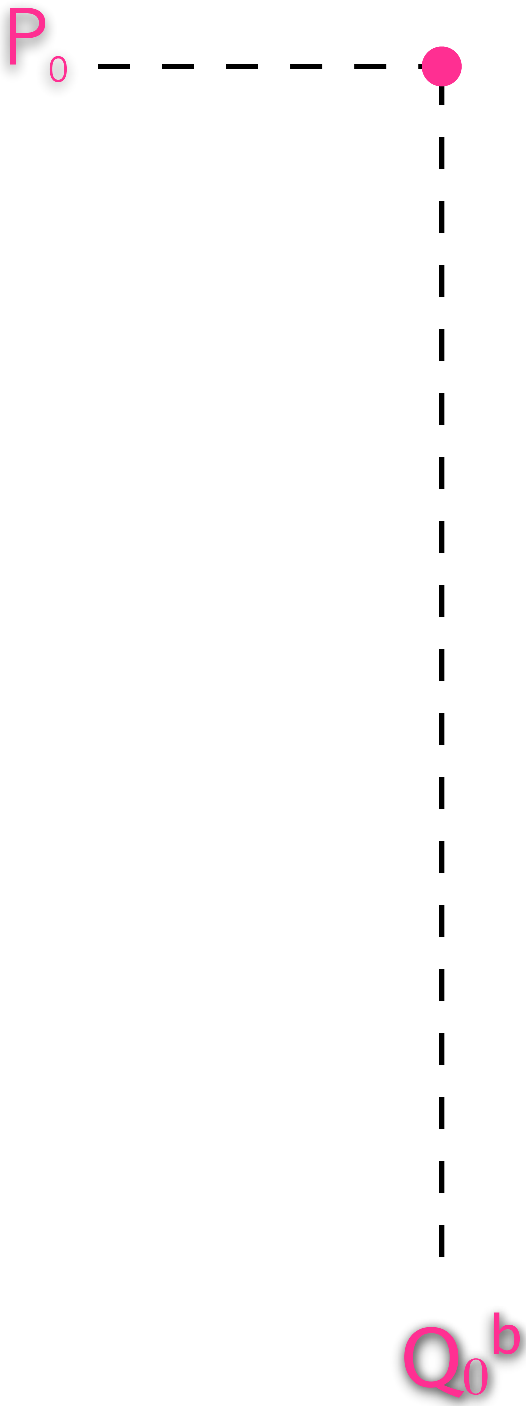
The Supply of bonds decrease

A leftward shift in the Supply of bonds

Assume the Bond Market starts at equilibrium


P_e
Q_0^b

S_1


P_0
Q_0^b

The bond price rise to a new equilibrium

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

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

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

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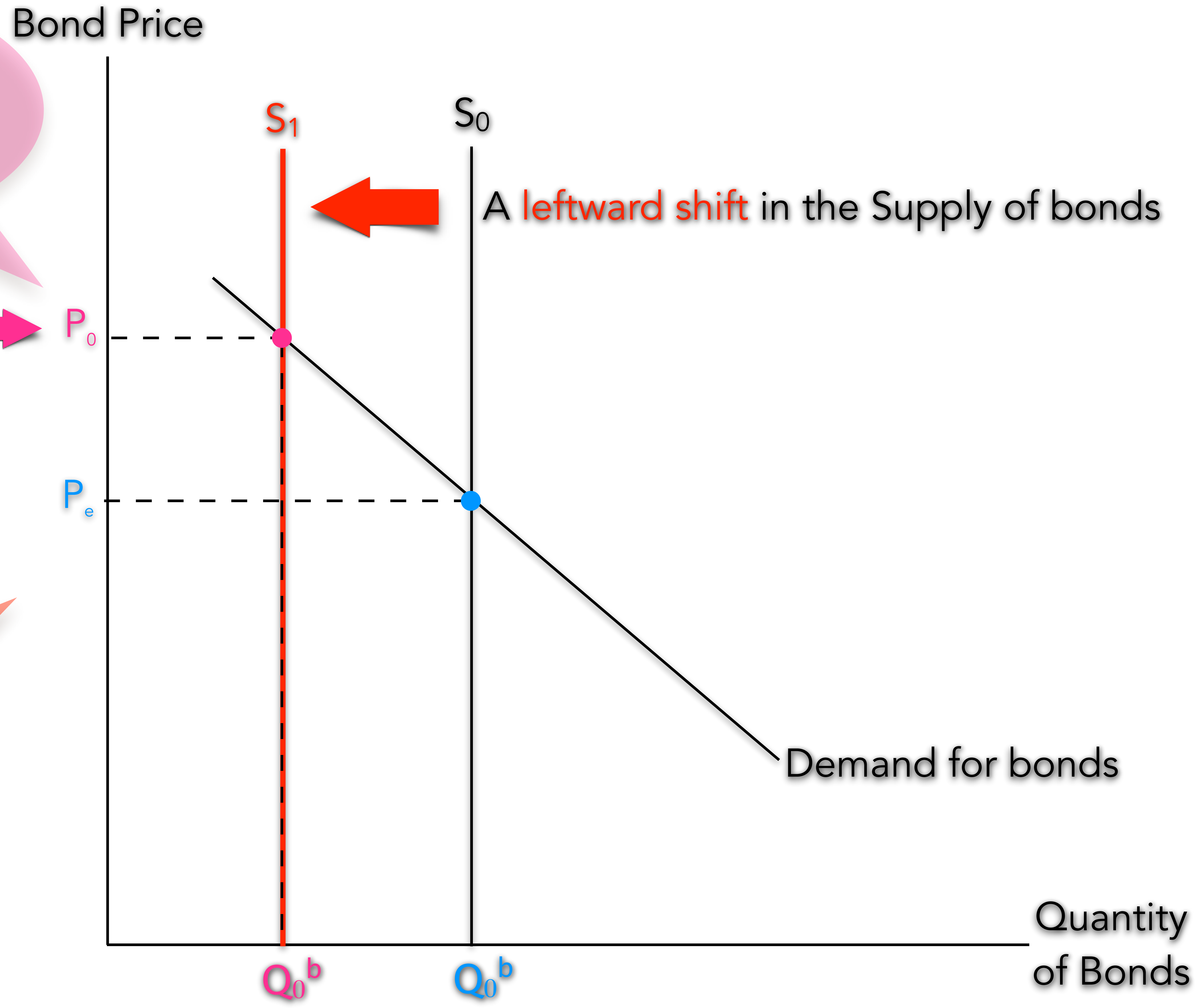

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