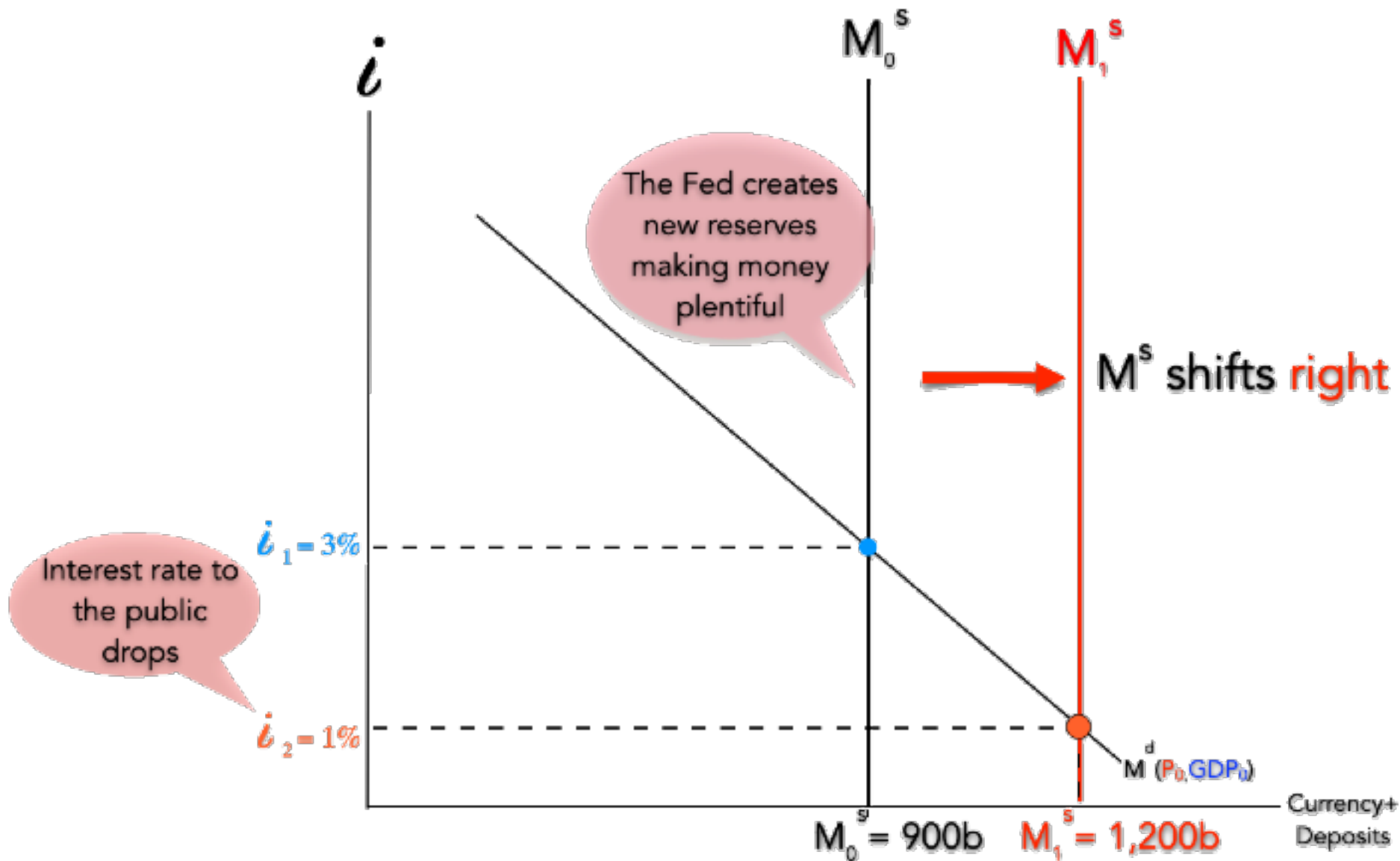


The Money Market



The Federal Funds Market

Federal Funds Rate

ffr

S_0

S_1

A rightward shift in the Supply of funds

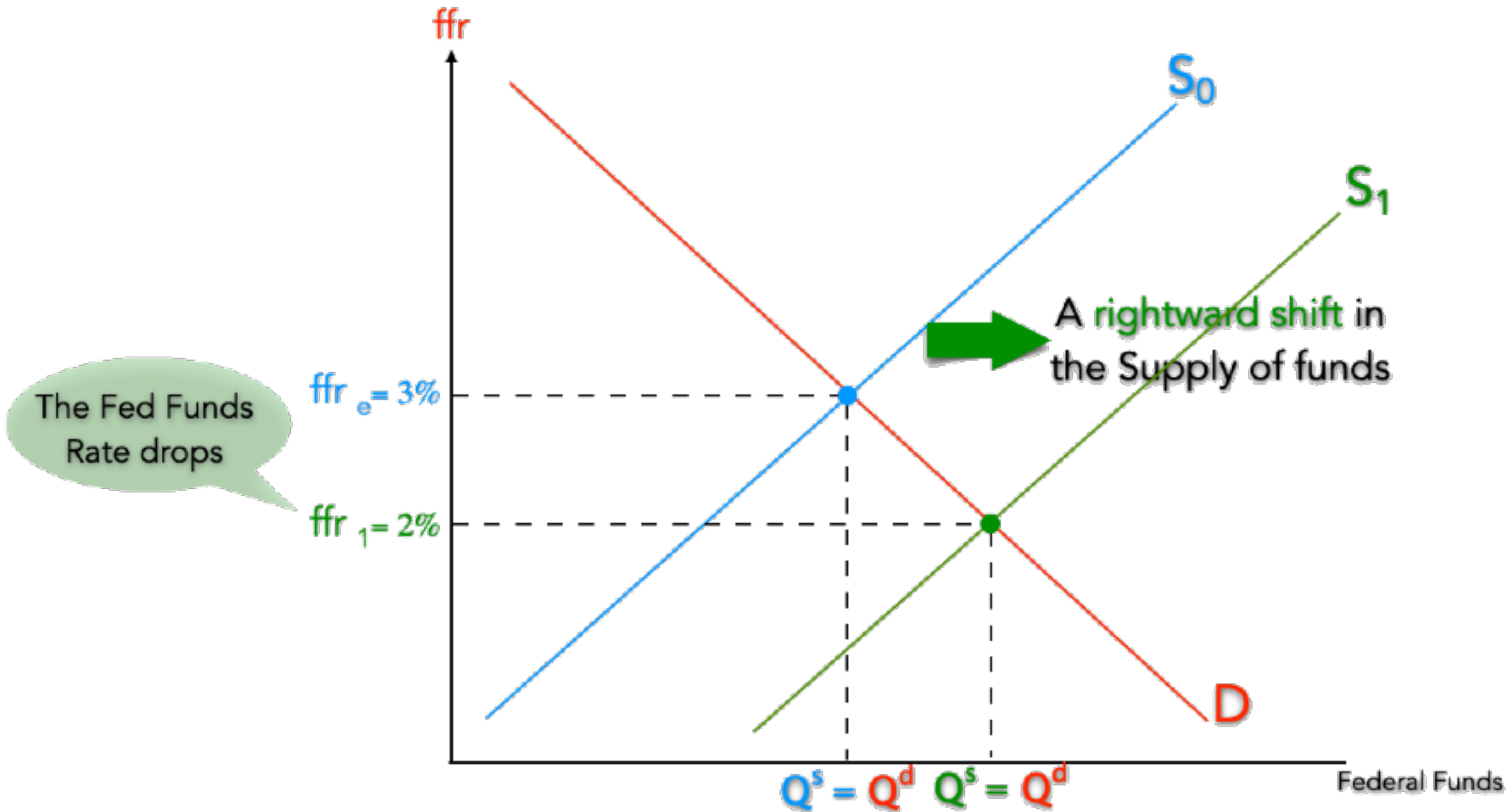
$\text{ffr}_e = 3\%$

$\text{ffr}_1 = 2\%$

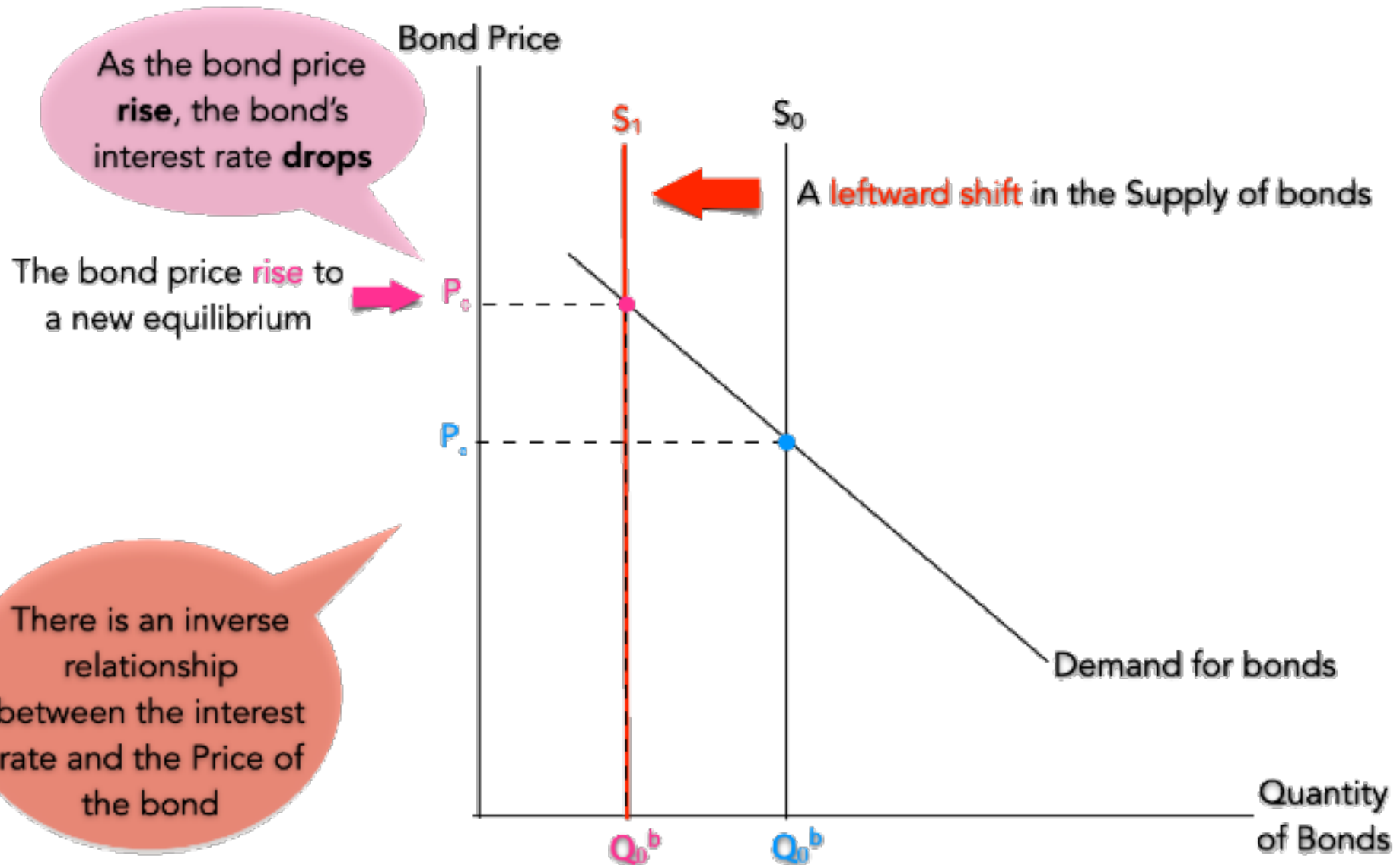
The Fed Funds Rate drops

$Q^s = Q^d$ $Q^s = Q^d$

Federal Funds



The Bond Market

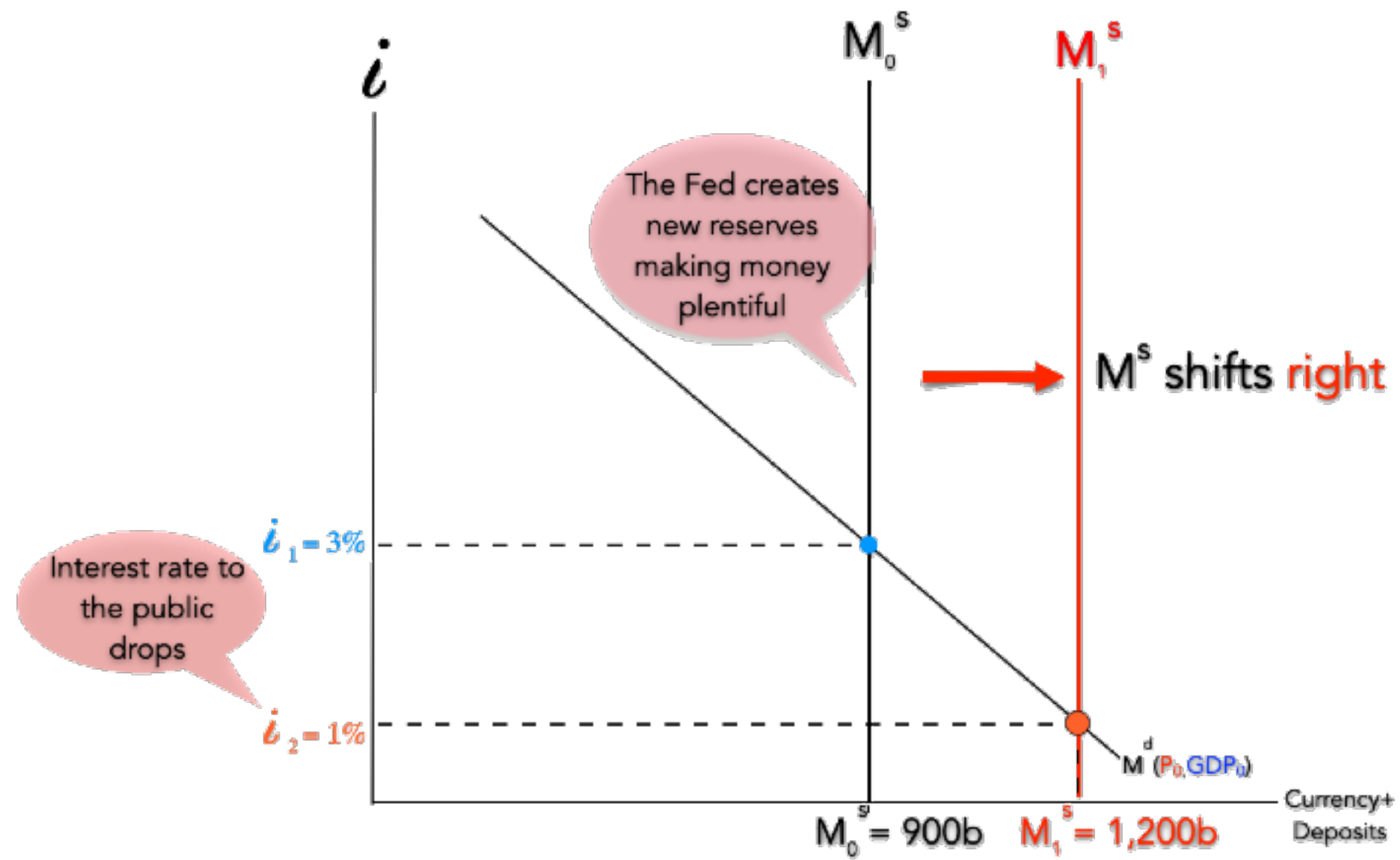


Interest rates drop in
all three markets

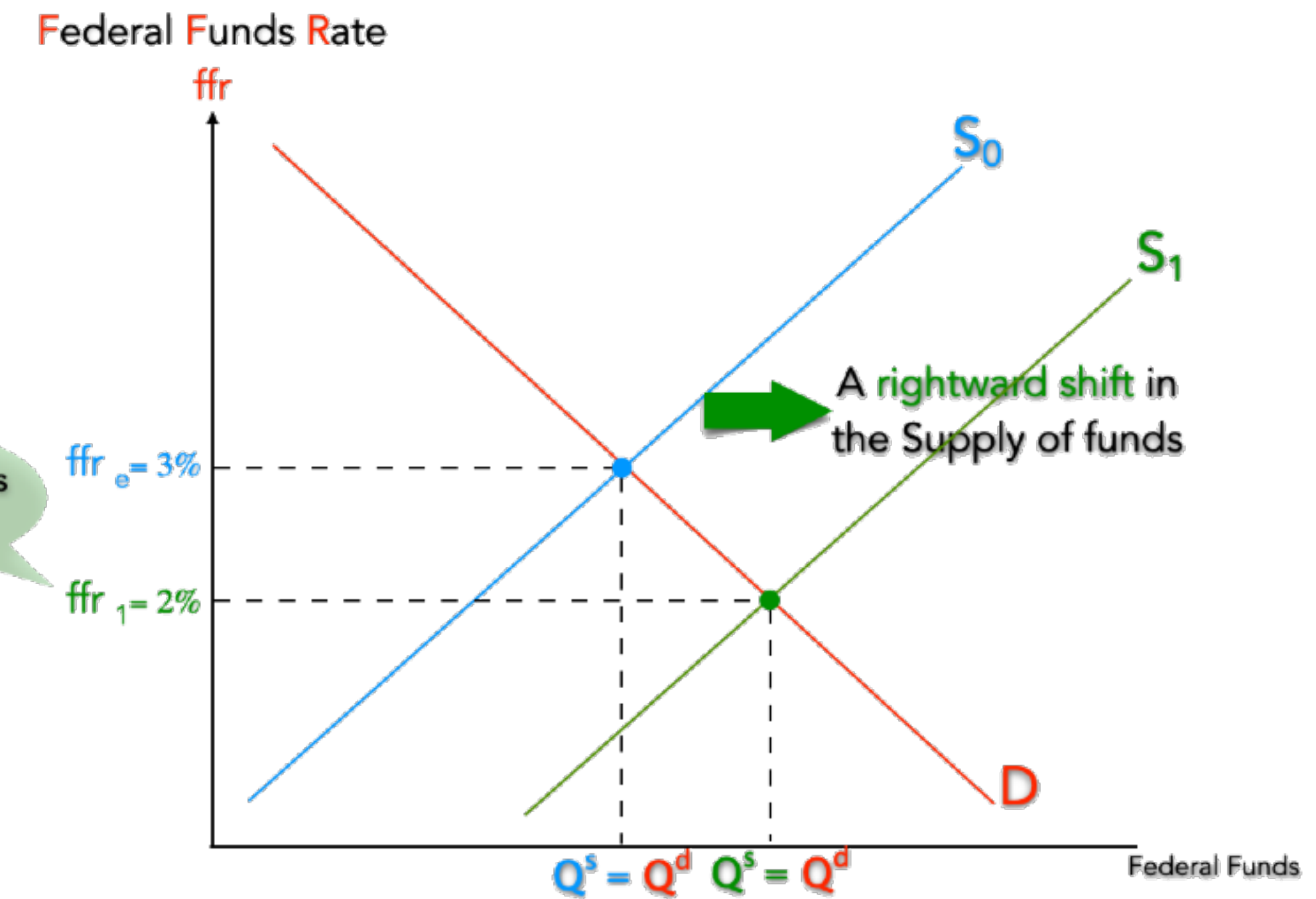
The effect of a Purchase of bonds by the Fed

The effect of a **Purchase** of bonds by the Fed

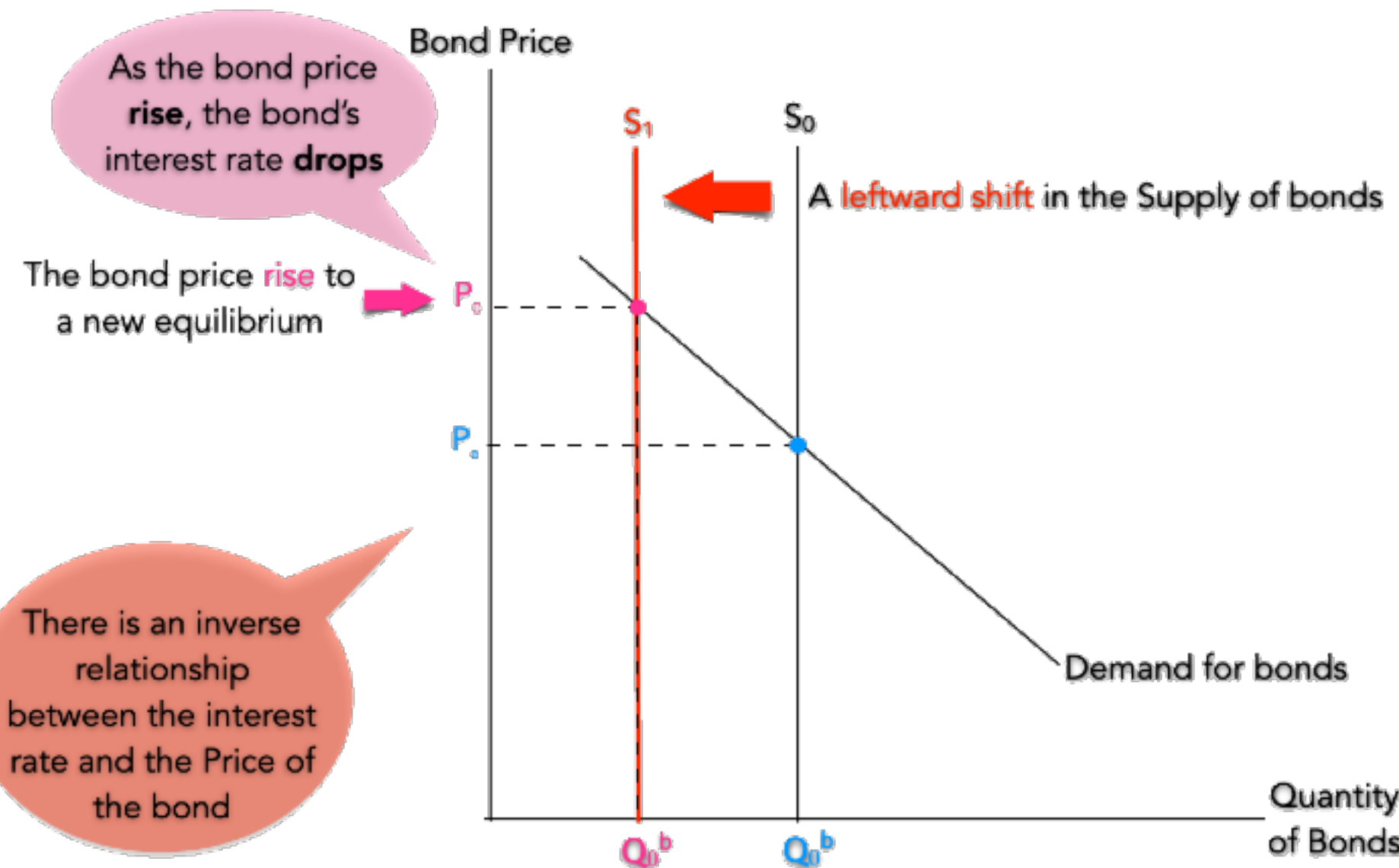
The Money Market



The Federal Funds Market



The Bond Market



Interest rates **drop** in all three markets