





D (from banks short of reserves)

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Federal Funds





$S_0$  (from banks  
with excess  
reserves)































**R**















The effect of a **sale** of bonds by the Fed on the  
Federal Funds Market

Feedseis Bonds:

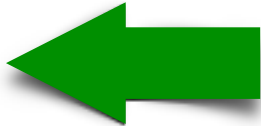
A sale of bonds by the Fed  
eliminates reserves from the  
banking system



There will be fewer banks  
with Excess Reserves



The **Supply** of funds in this  
market decrease



A leftward shift in  
the Supply of funds

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



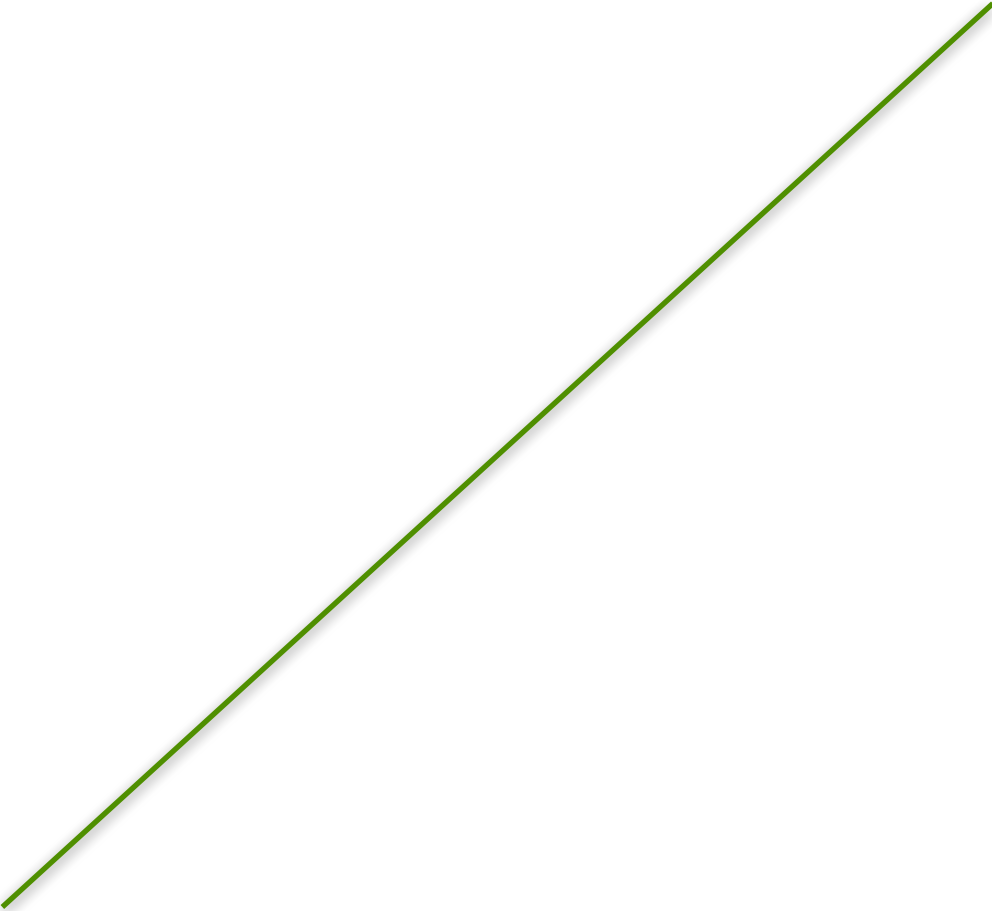
$Q^s = Q^d$




Assume the  
market starts at  
equilibrium



$S_1$  (from banks  
with excess  
reserves)



$\text{ffr}_1 = 5\%$



A diagram consisting of a horizontal dashed line extending from the text  $\text{ffr}_1 = 5\%$  to a green dot. From this dot, a vertical dashed line extends downwards to the text  $Q^s = Q^d$ .

$Q^s = Q^d$



The Fed Funds  
Rate rise

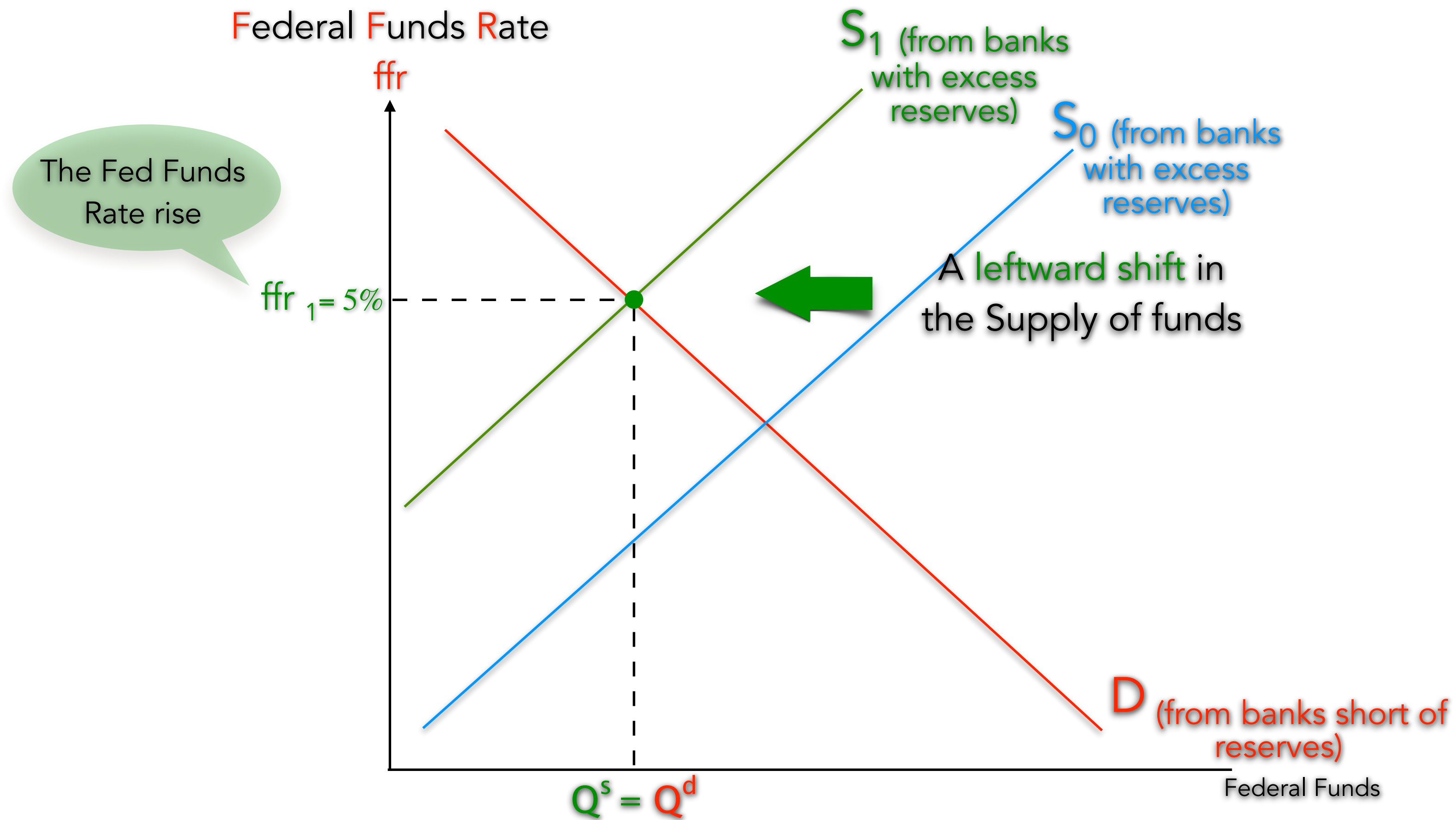
Reserves



Federal Funds Rate

ffr

# The effect of a **sale** of bonds by the Fed on the Federal Funds Market



Fed **sells** Bonds: **Reserves** ↓

A **sale** of bonds by the Fed **eliminates** reserves from the banking system

There will be **fewer** banks with Excess Reserves

The **Supply** of funds in this market **decrease**