

# Federal Funds Rate

ffr

$S_1$

$S_0$

A leftward shift in the Supply of funds

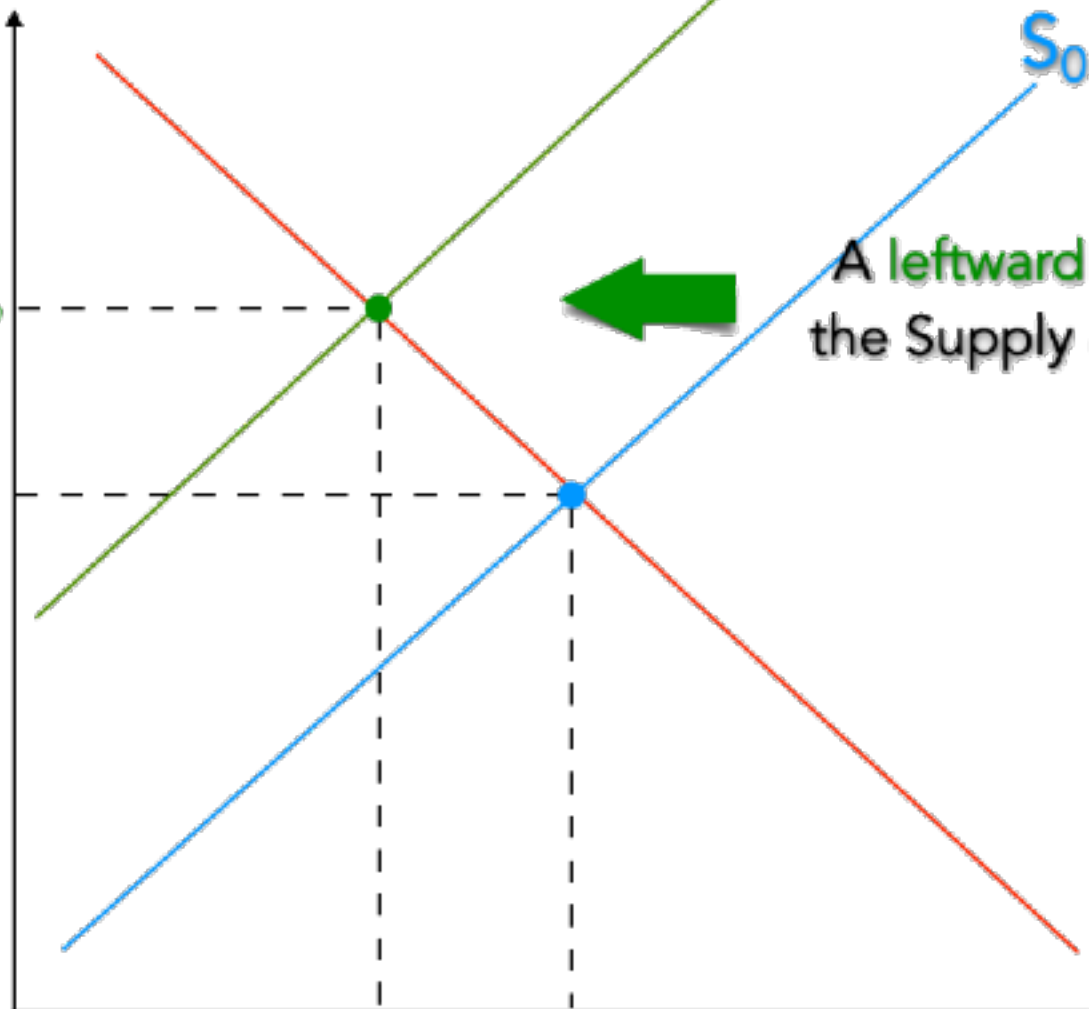
$ffr_1 = 5\%$

$ffr_e = 3\%$

The Fed Funds Rate rise

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

Federal Funds



Bond Price

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

$S_0$

$S_1$

A rightward shift in the Supply of bonds

$P_0$

$P_1$

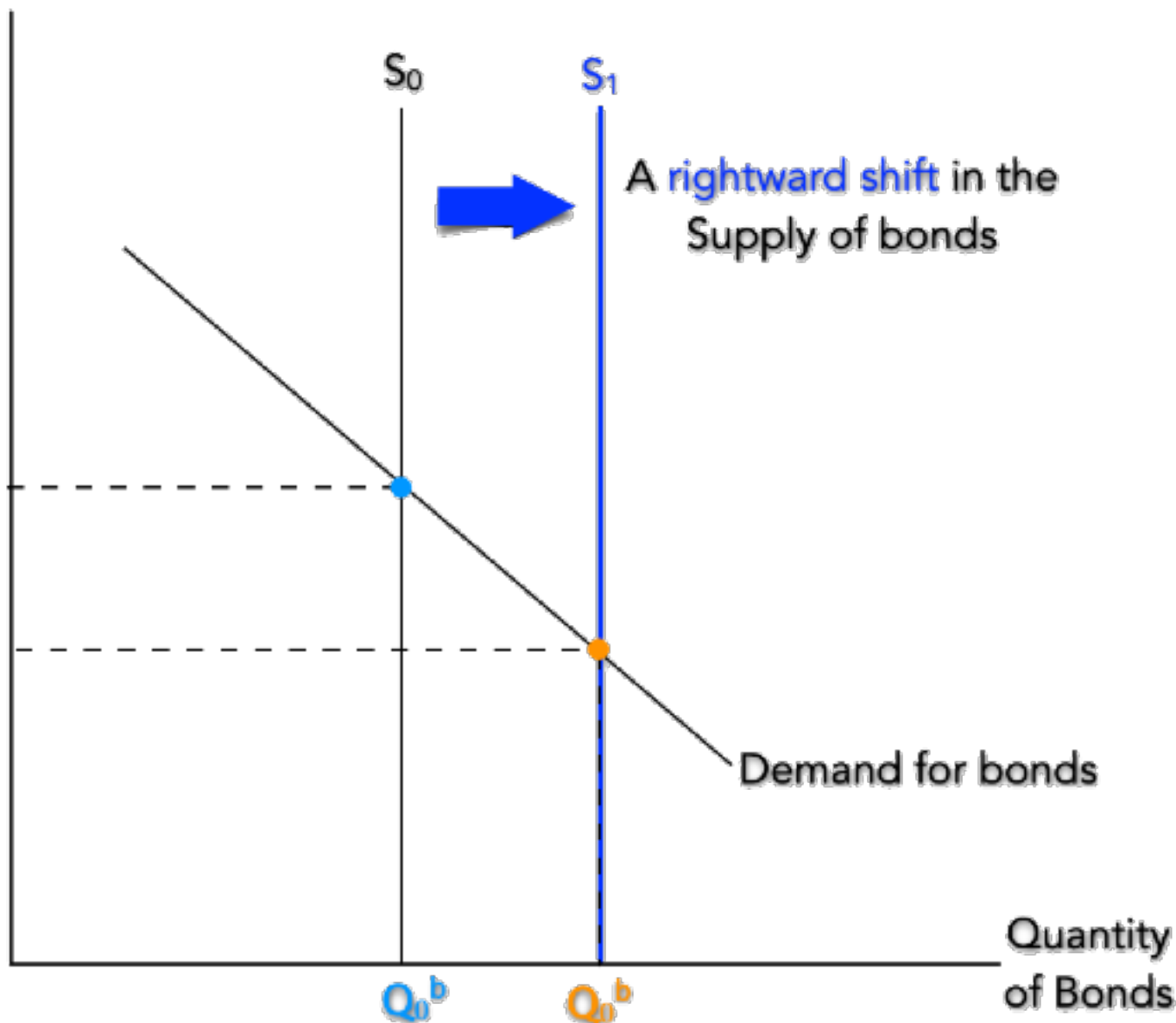
Demand for bonds

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

$Q_0^b$

$Q_1^b$

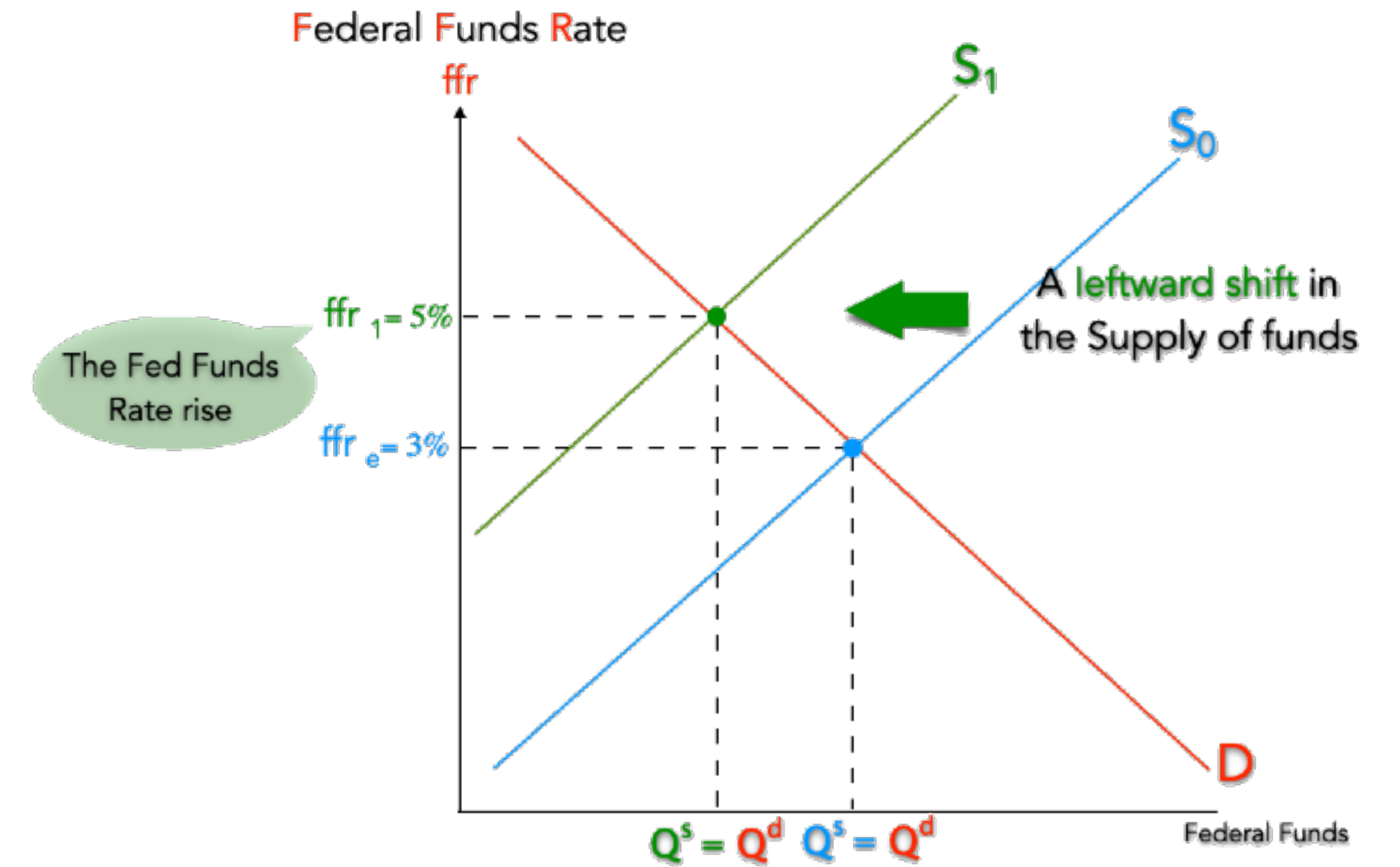
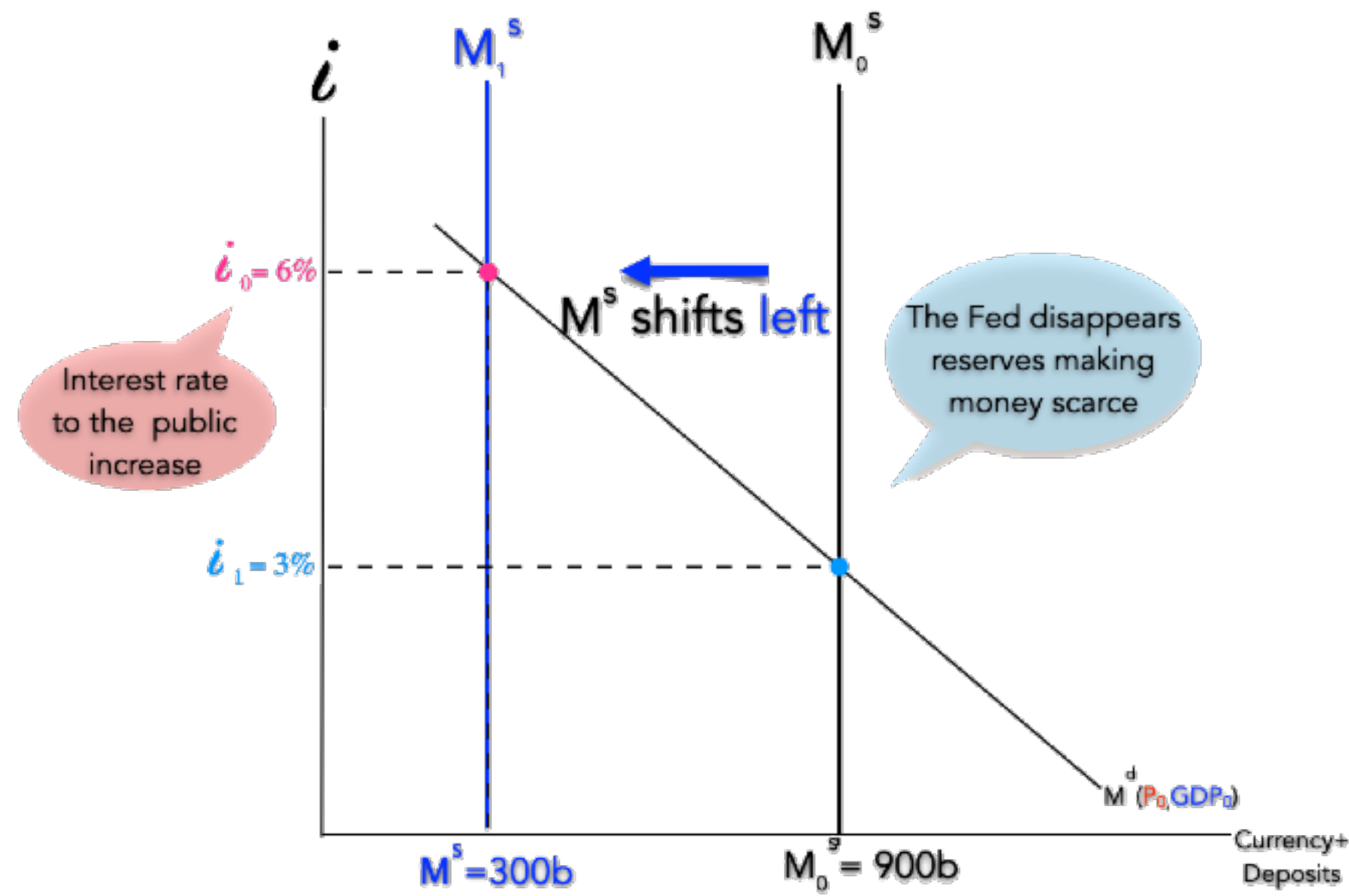
Quantity of Bonds



Interest rates  
increase in all three  
markets

The effect of a Sale of bonds by the Fed

# The effect of a **Sale** of bonds by the Fed



Interest rates  
**increase** in all three  
markets

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

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

