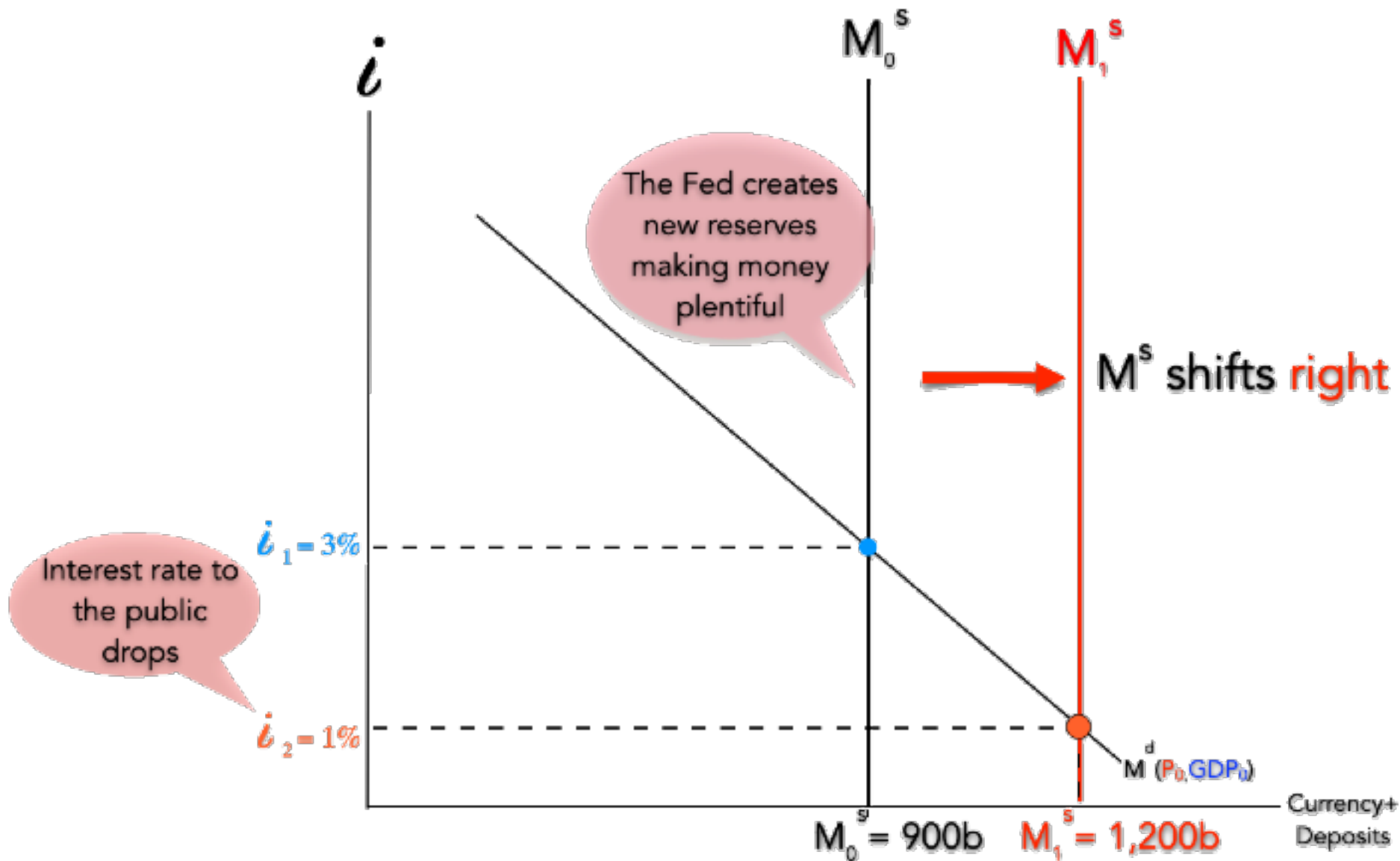




# The Money Market



# The Federal Funds Market

Federal Funds Rate

ffr

$S_0$

$S_1$

A rightward shift in the Supply of funds

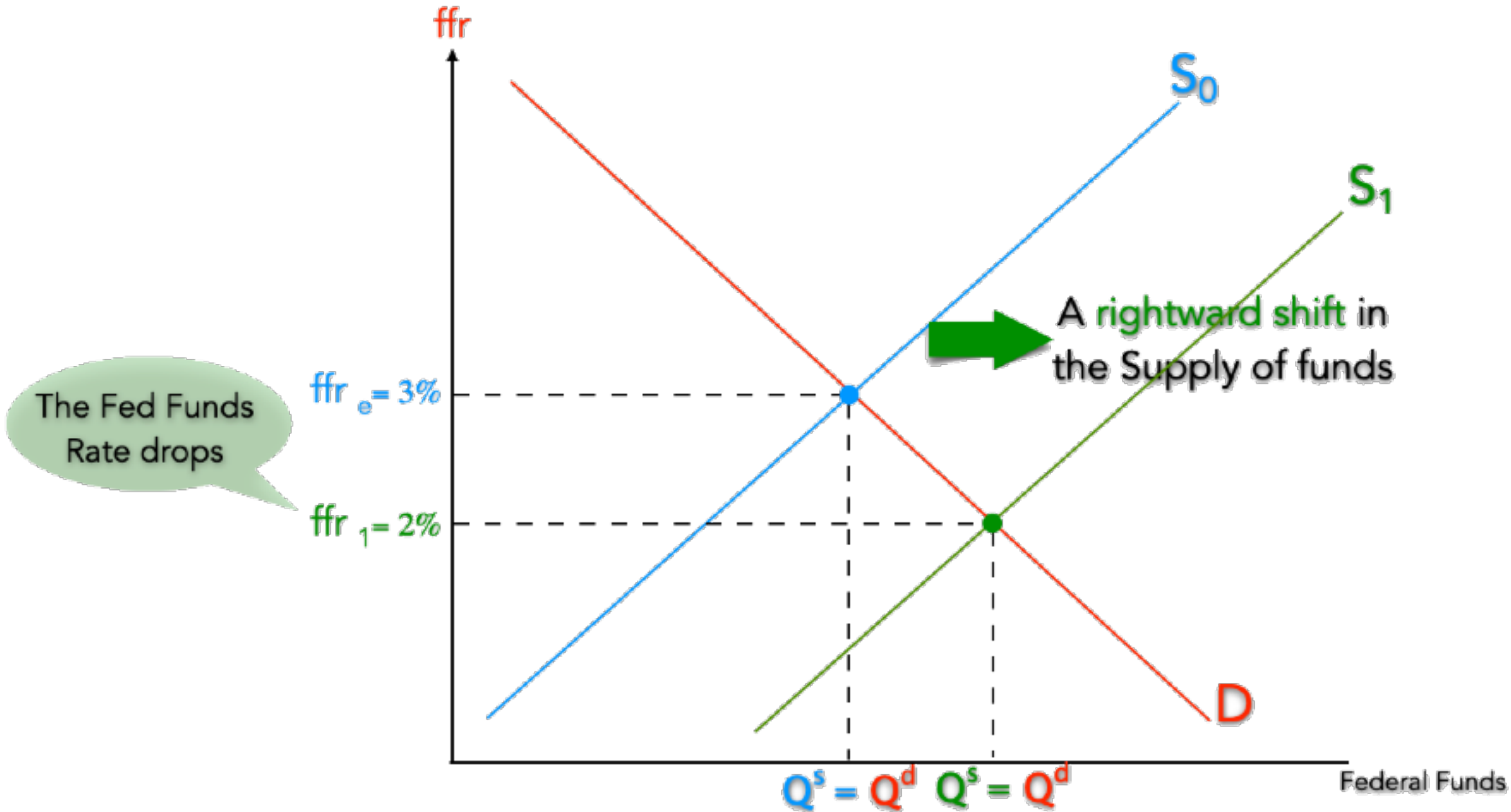
$\text{ffr}_e = 3\%$

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

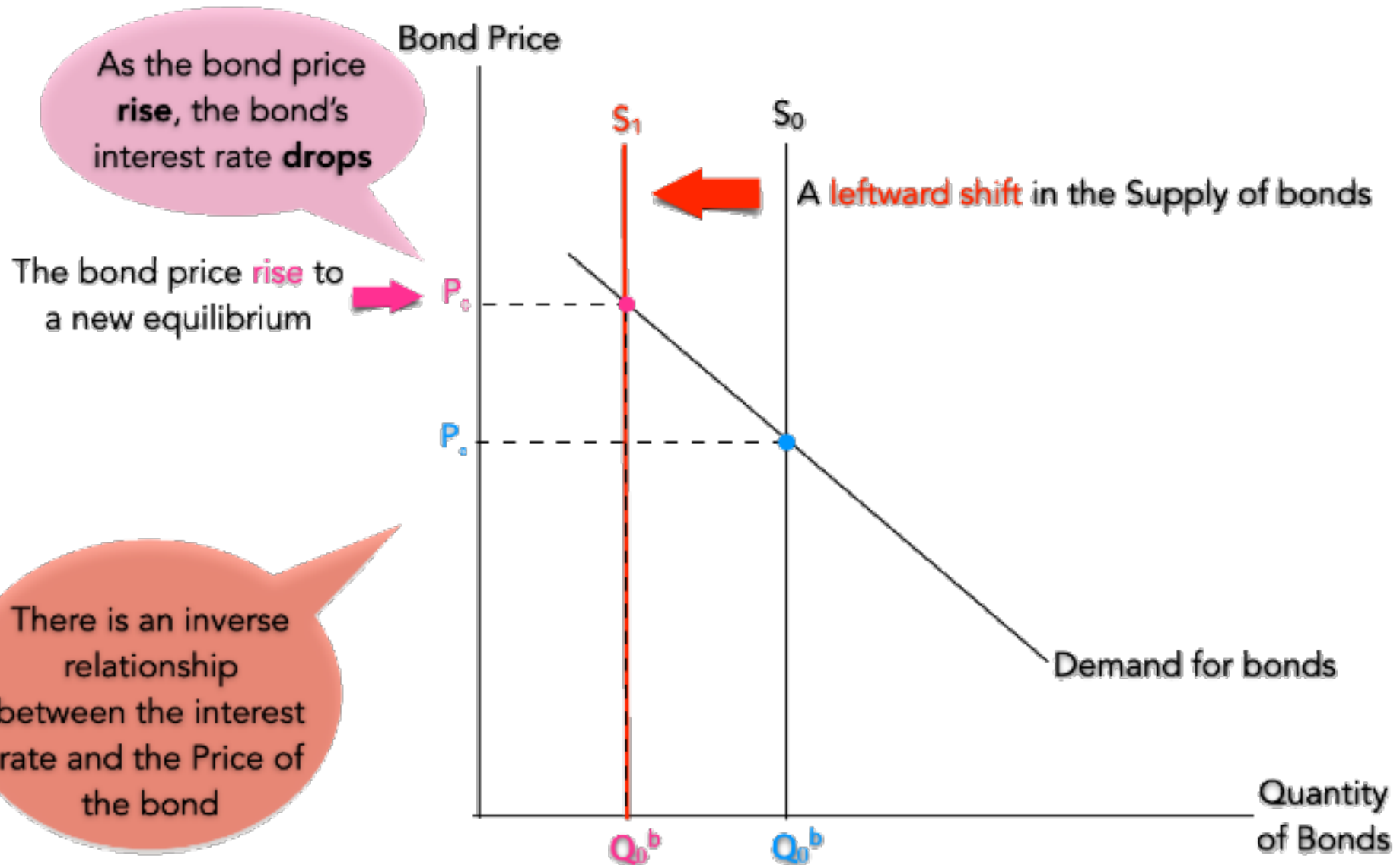
The Fed Funds Rate drops

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

Federal Funds



# The Bond Market

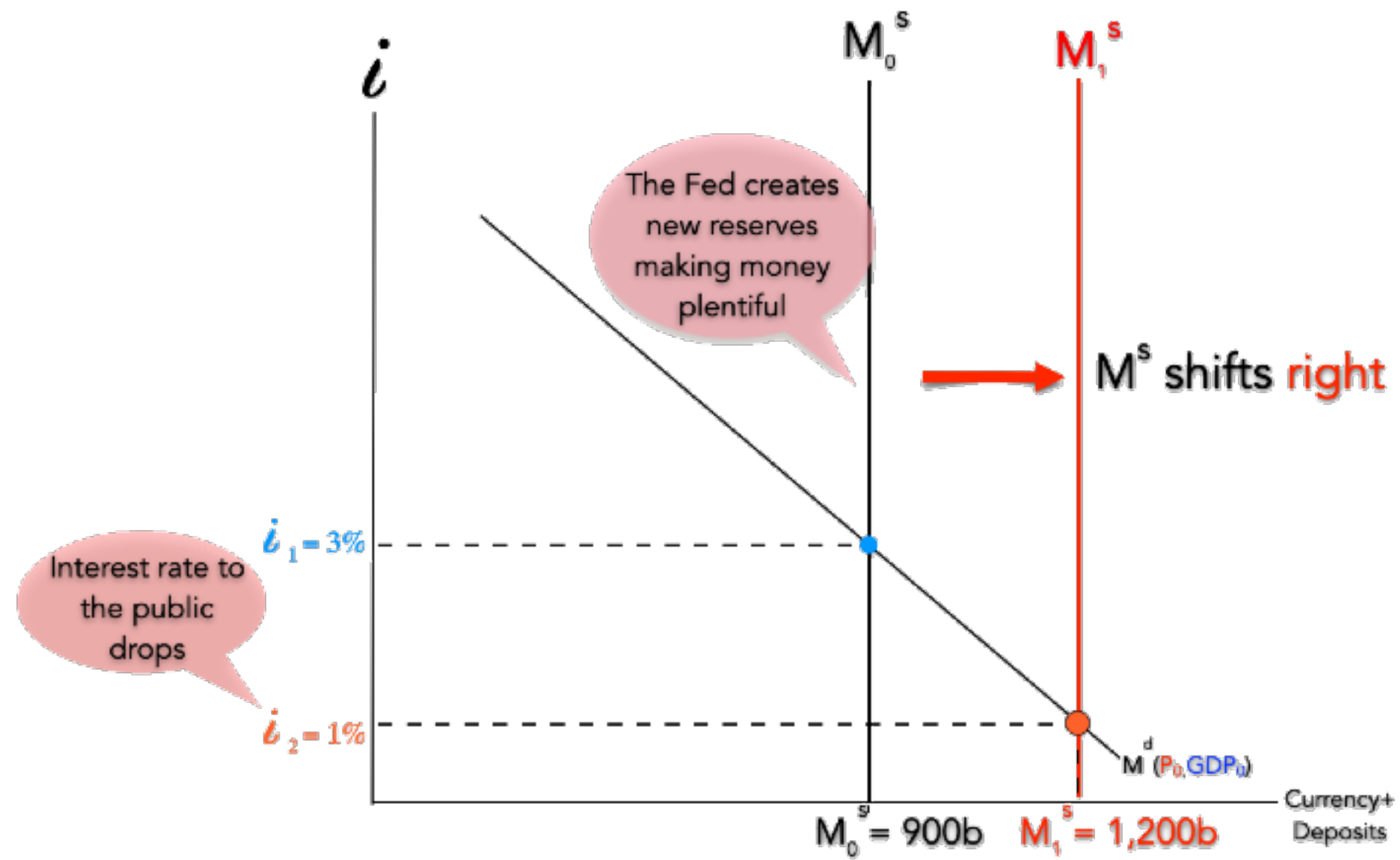


Interest rates drop in  
all three markets

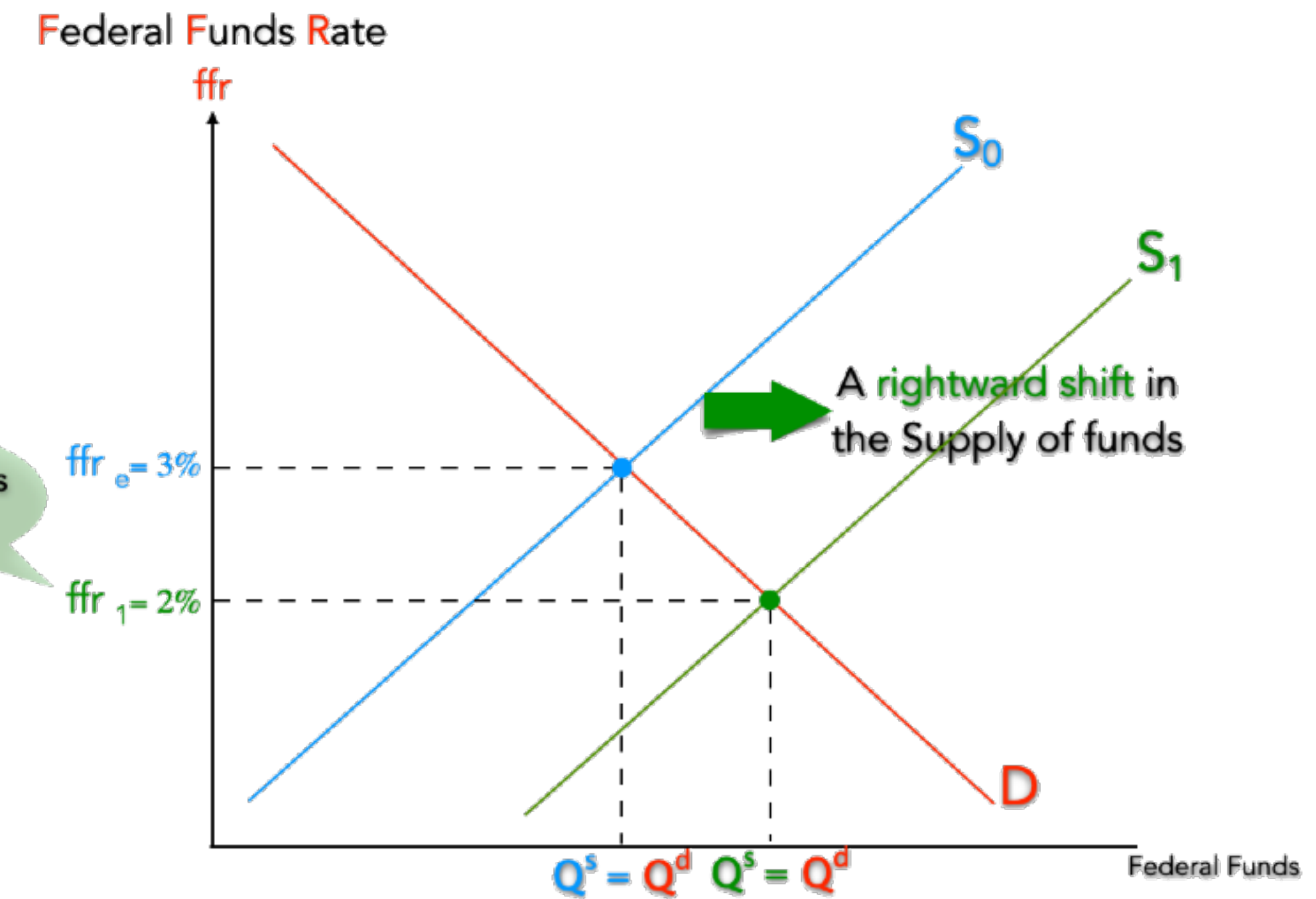
The effect of a Purchase of bonds by the Fed

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

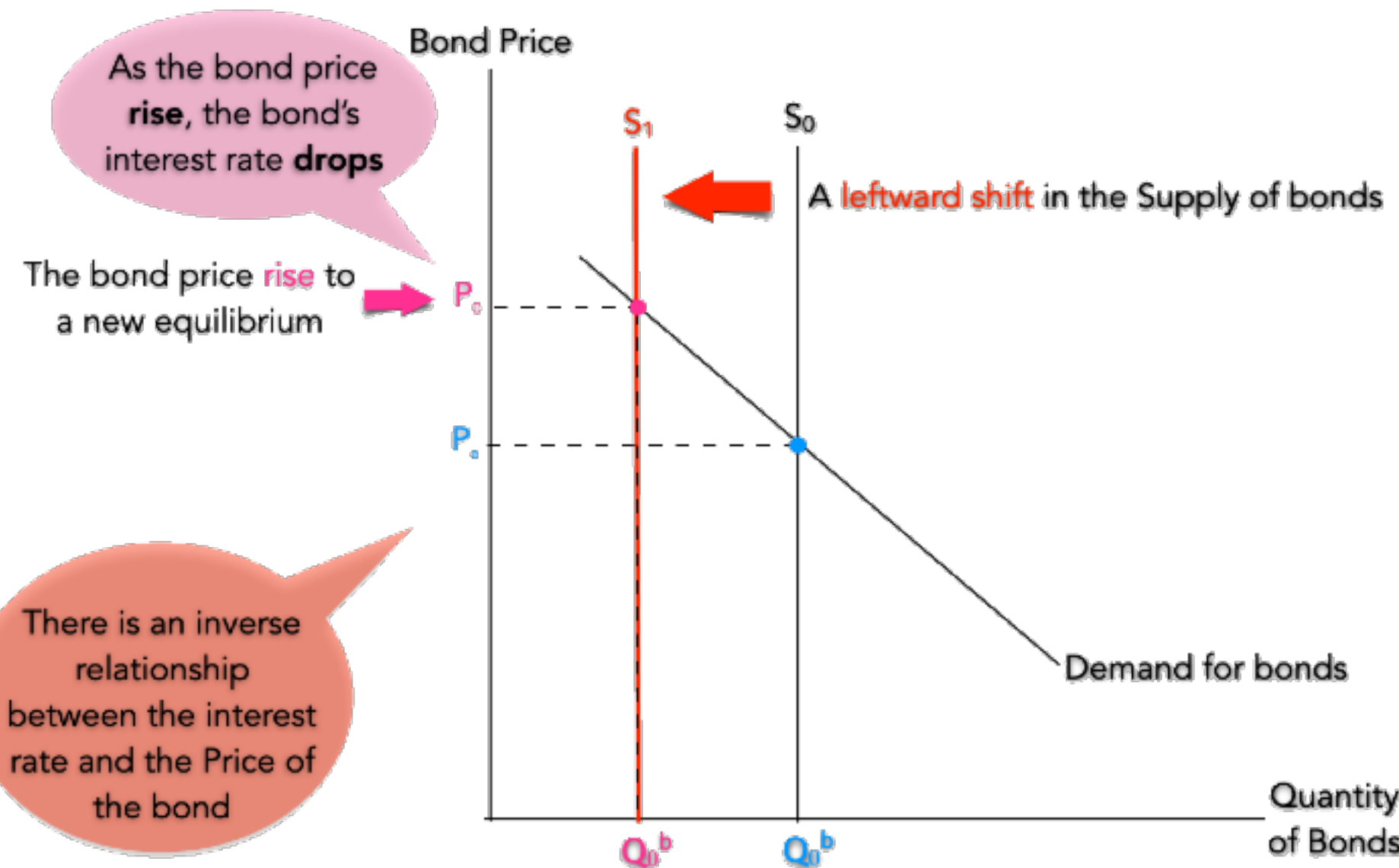
The Money Market



The Federal Funds Market



The Bond Market



Interest rates **drop** in all three markets