



D (from banks short of reserves)

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:

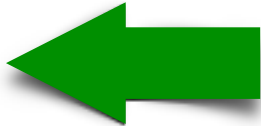
A sale of bonds by the Fed
eliminates reserves from the
banking system



There will be fewer banks
with Excess Reserves



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



A leftward shift in
the Supply of funds

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

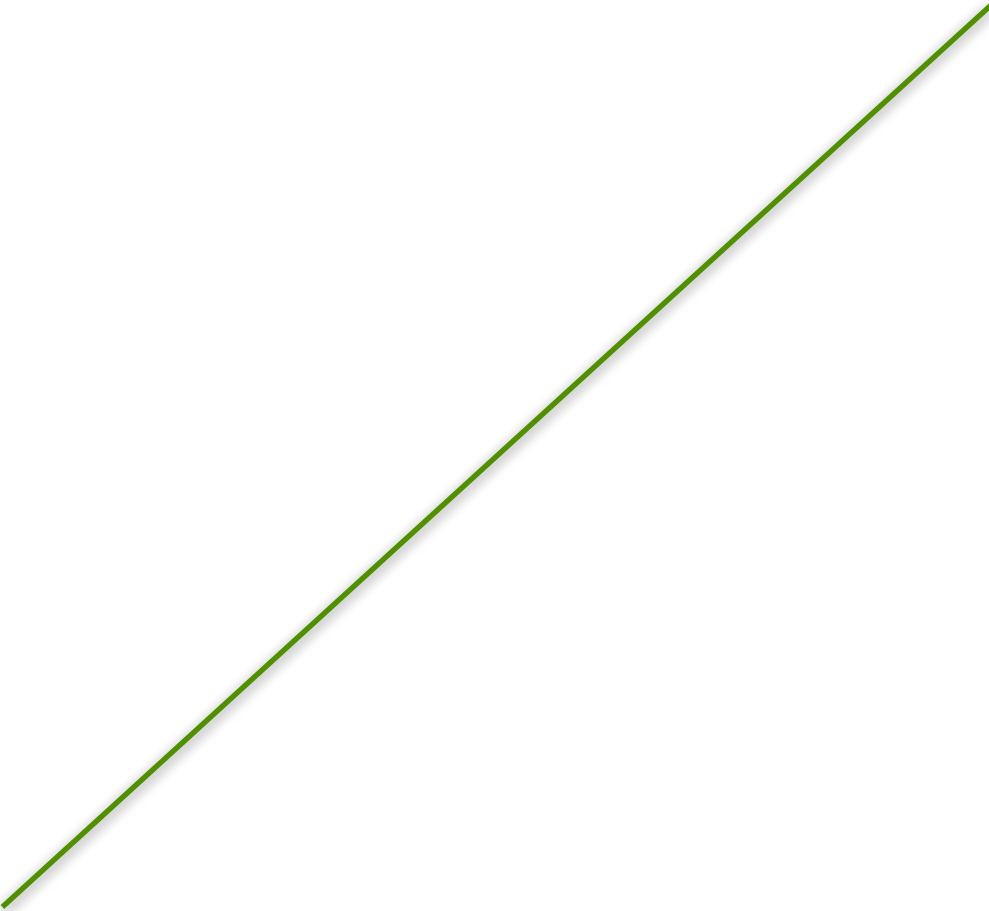


$Q^s = Q^d$


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

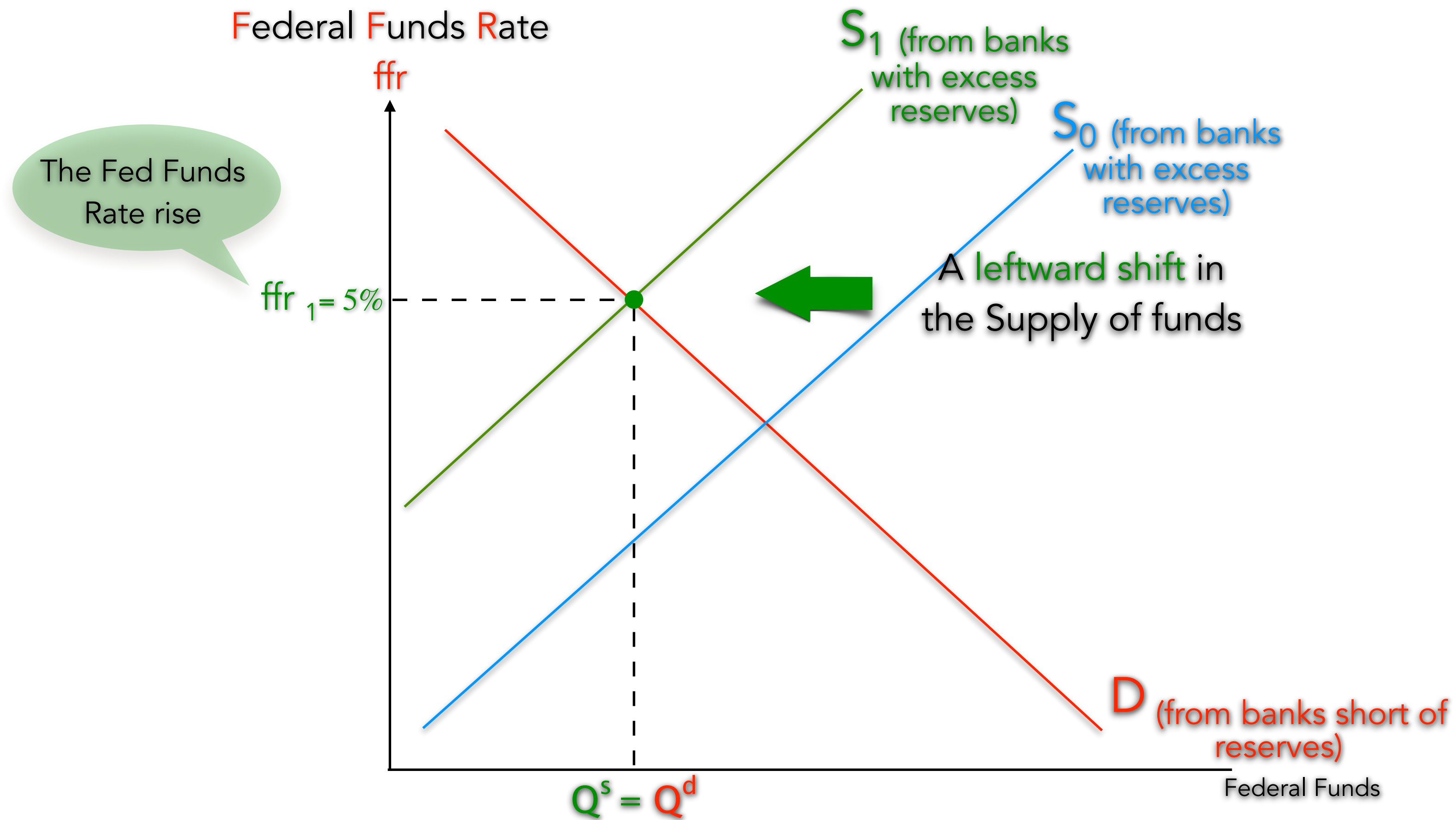
Reserves



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**