





e











2





U





S

M

a





























b

U









S





2

V



b

2





S





S





2

V

























6





U











S





V



S

R

[REDACTED]

[REDACTED]







Some banks end
with less in
reserves than
required

Some banks end
the day with more
reserves than
required

Borrowed Funds

i





D funds

These banks
want a low
interest rate

Loanable Funds

i

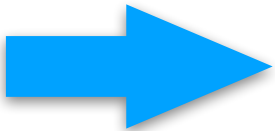


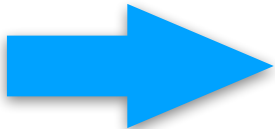
S_{funds}

A solid blue line starts at the bottom-left and extends diagonally upwards to the top-right, representing a positive linear relationship.

These banks
want a high
interest rate

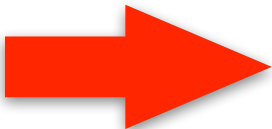
These banks with
excess reserves, want
to lend these reserves
to other banks

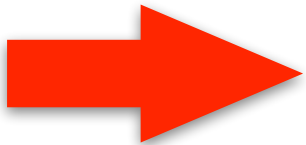




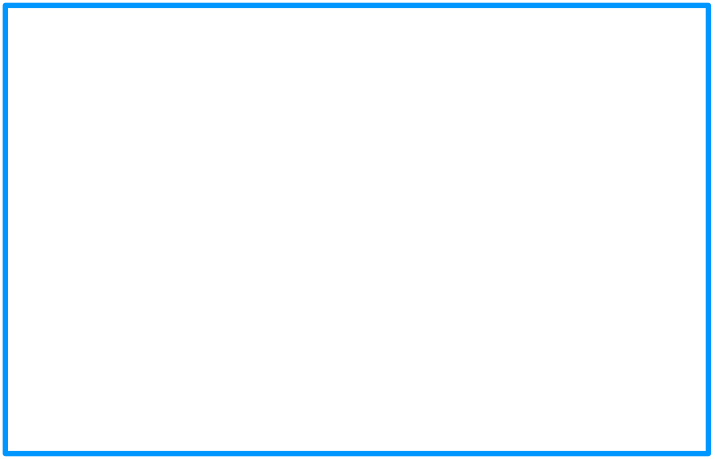
This creates a
Supply of funds
for lending

These banks **short**
of reserves, must
borrow reserves
from other banks





This creates a
Demand for
borrowing funds









B





2



S









S





U







2













2

S















S

W













F













S



2











S



24









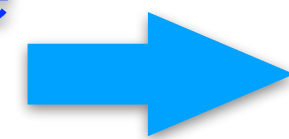
At the end of business day, banks must have
the required amount of reserves $R = r^*D$

Because these funds are held
as deposits with the Fed, this
market is called

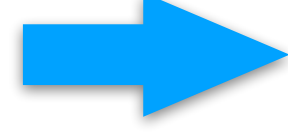
The Federal Funds Market

At the end of business day, banks must have the required amount of reserves $R = r * D$

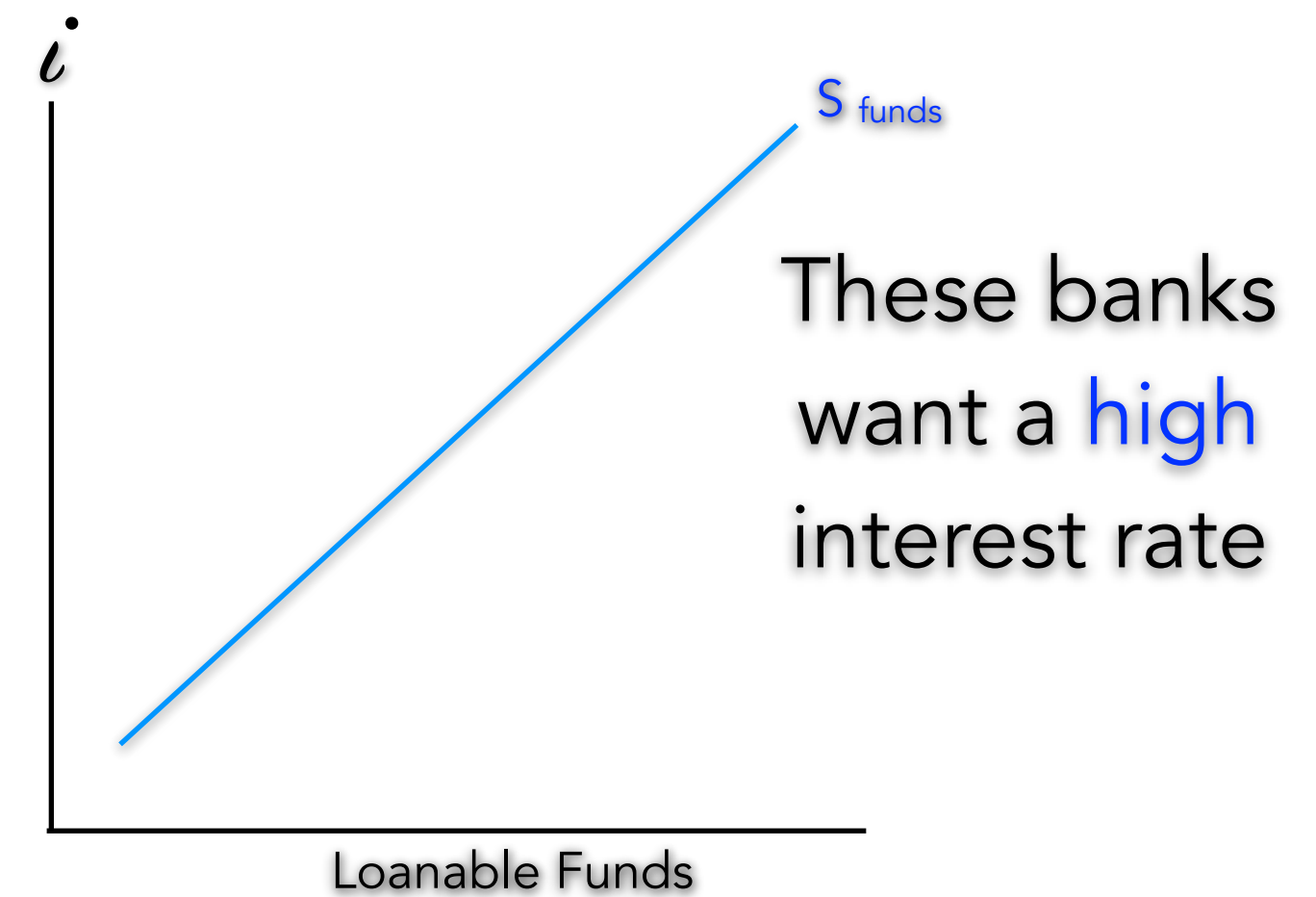
Some banks end the day with **more** reserves than required



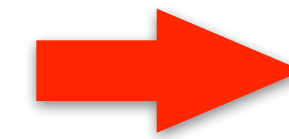
These banks with **excess reserves**, want to **lend** these reserves to other banks



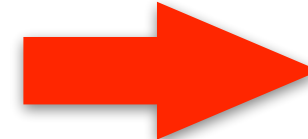
This creates a **Supply** of funds for lending



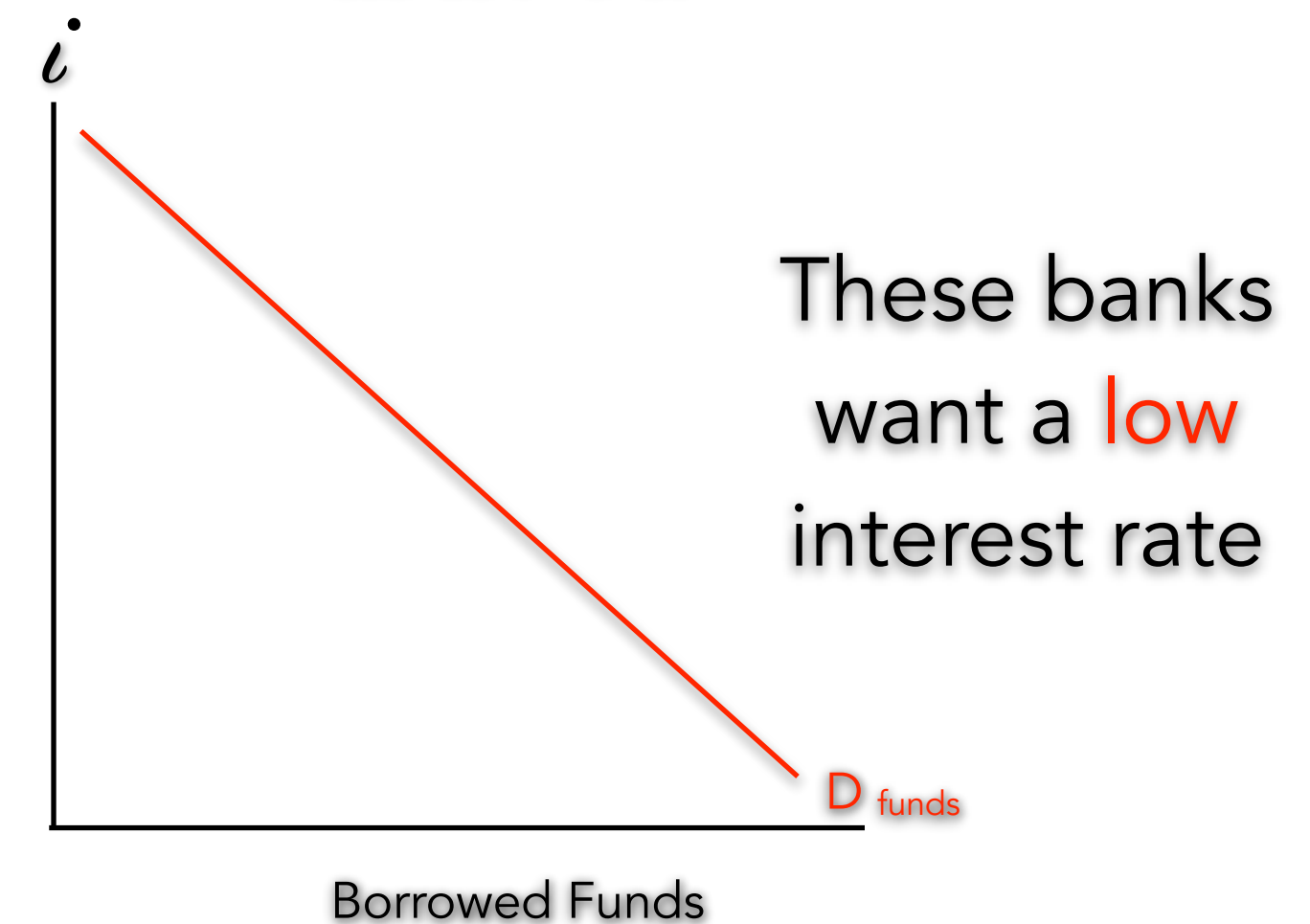
Some banks end with **less** in reserves than required



These banks **short of reserves**, must **borrow** reserves from other banks



This creates a **Demand** for borrowing funds



The Federal Funds Market