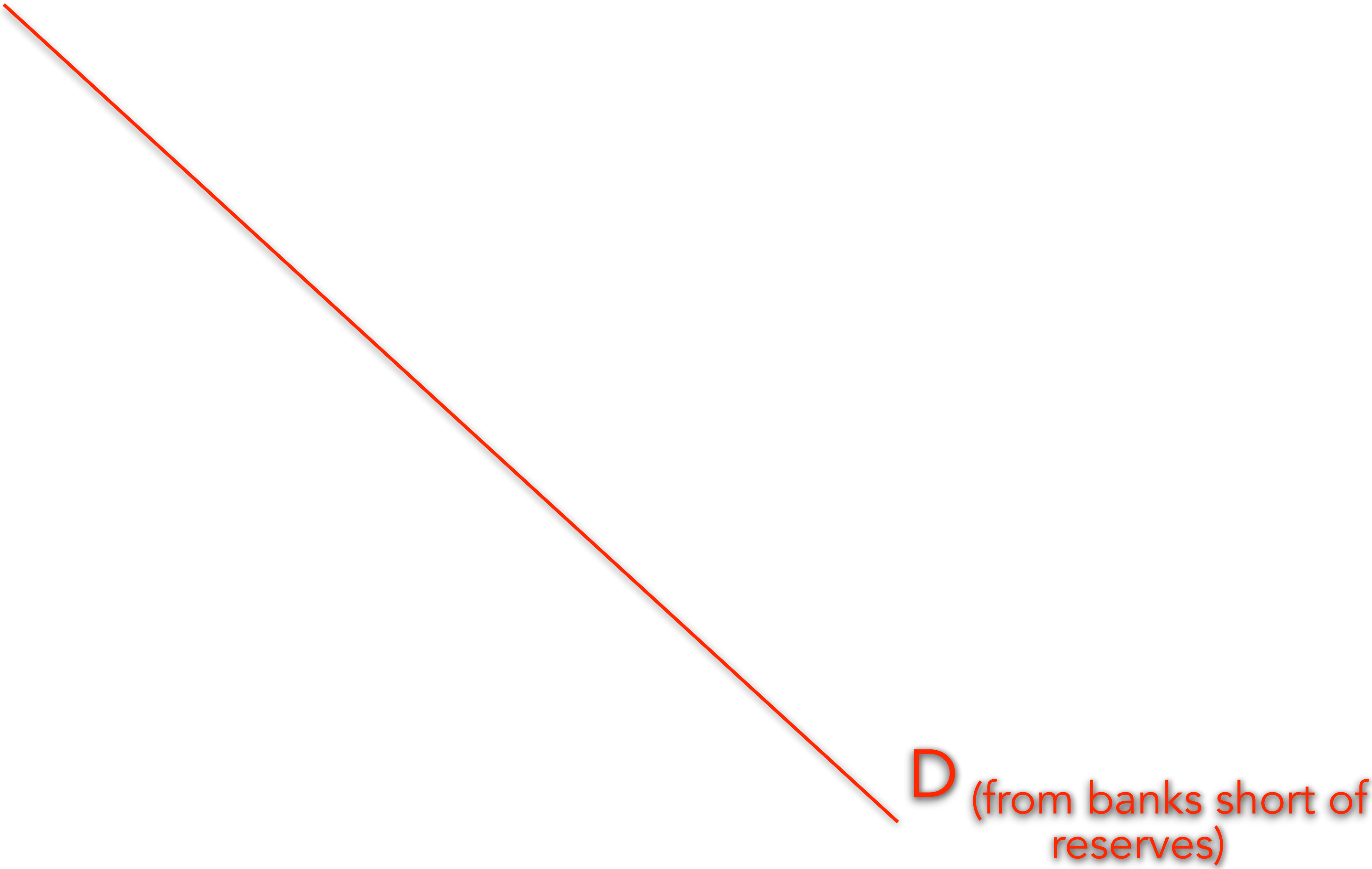
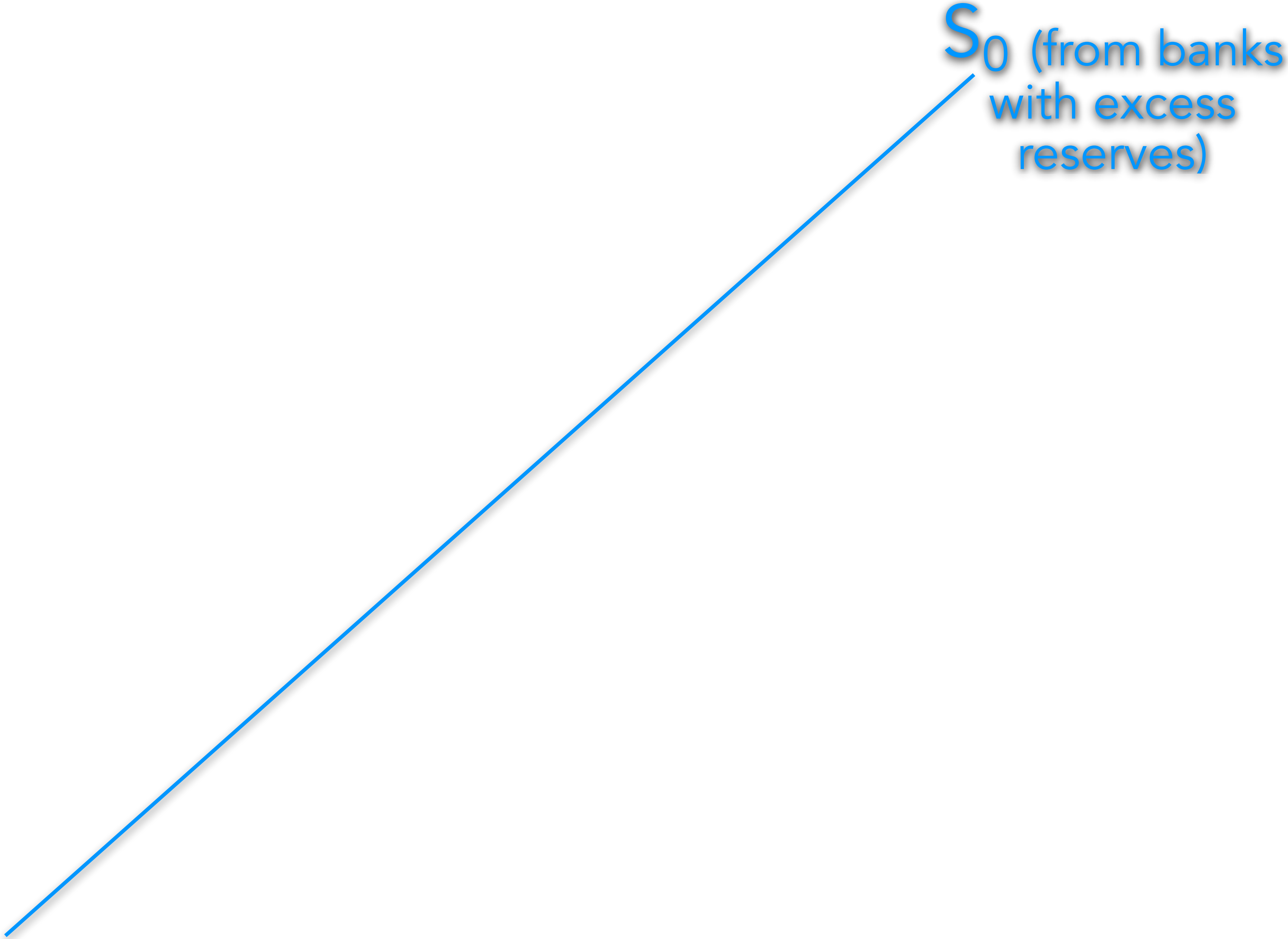

D (from banks short of
reserves)

Federal Funds


S_0 (from banks with excess reserves)

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

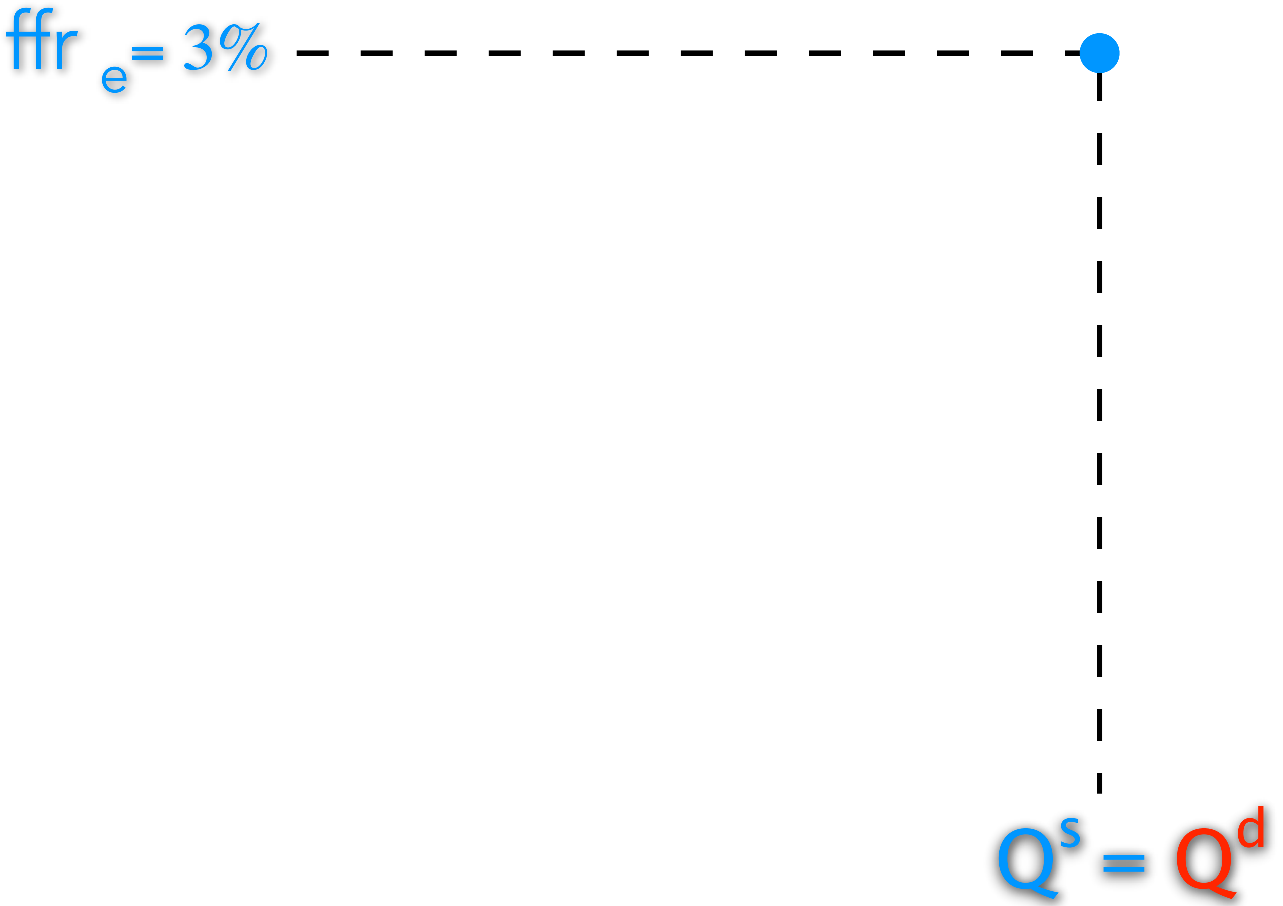
Fed sells Bonds:

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

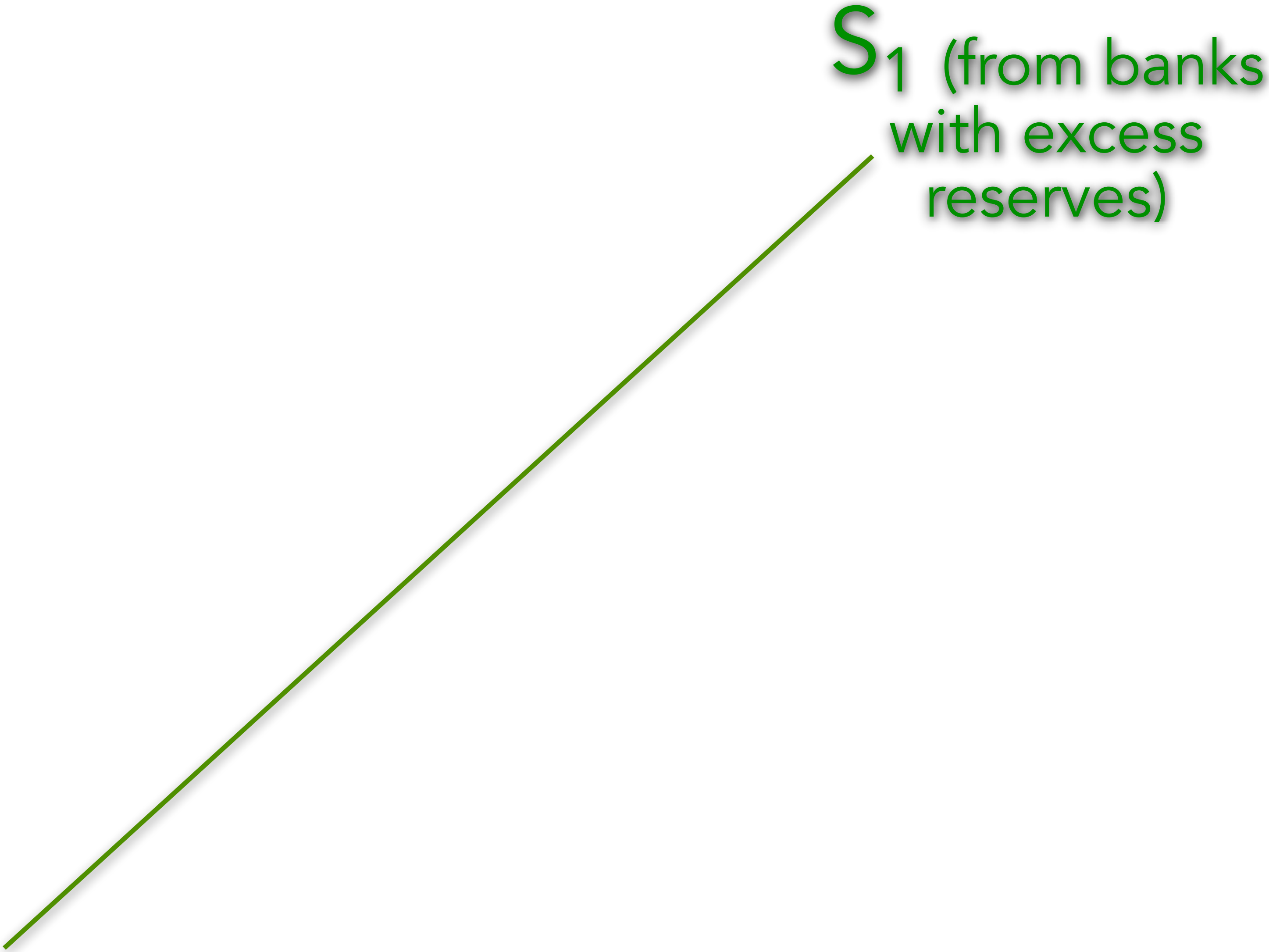
There will be fewer banks with Excess Reserves

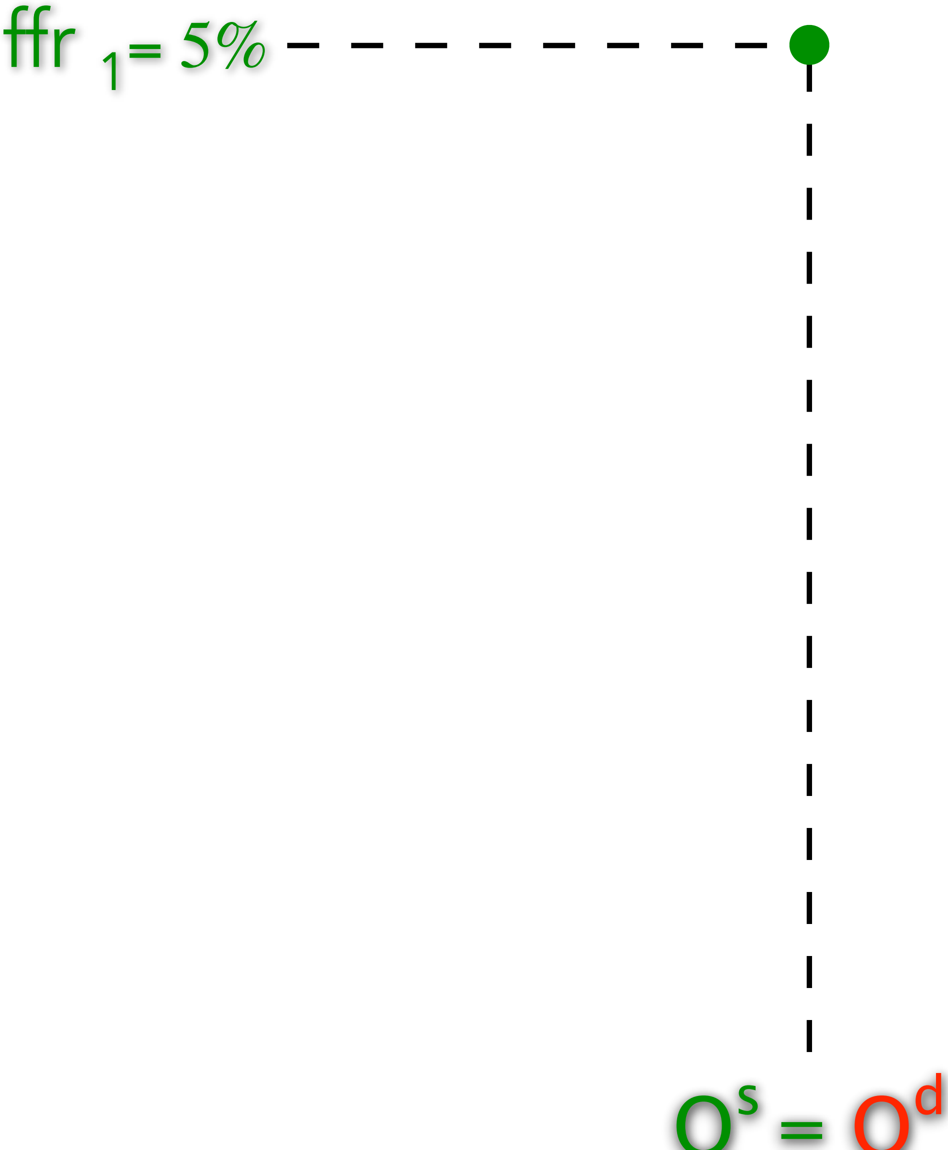
The **Supply** of funds in this market decrease

A leftward shift in the Supply of funds


$ffr_e = 3\%$
$Q^s = Q^d$

Assume the market starts at equilibrium


S1 (from banks
with excess
reserves)


$ffr_1 = 5\%$
$Q^s = Q^d$

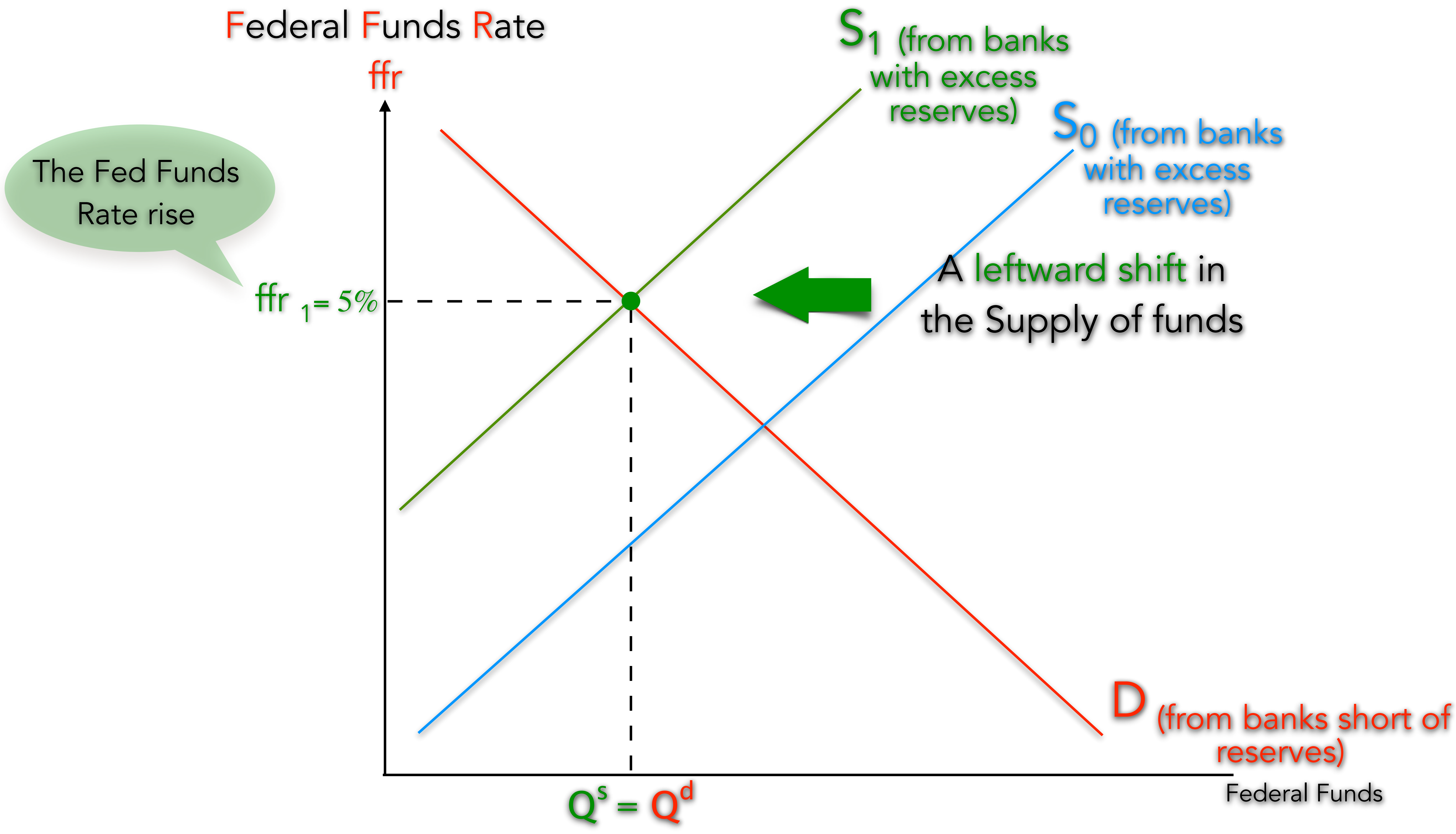
The Fed Funds Rate rise

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