

# Federal Funds Rate

ffr

$S_1$

$S_0$

A leftward shift in the Supply of funds

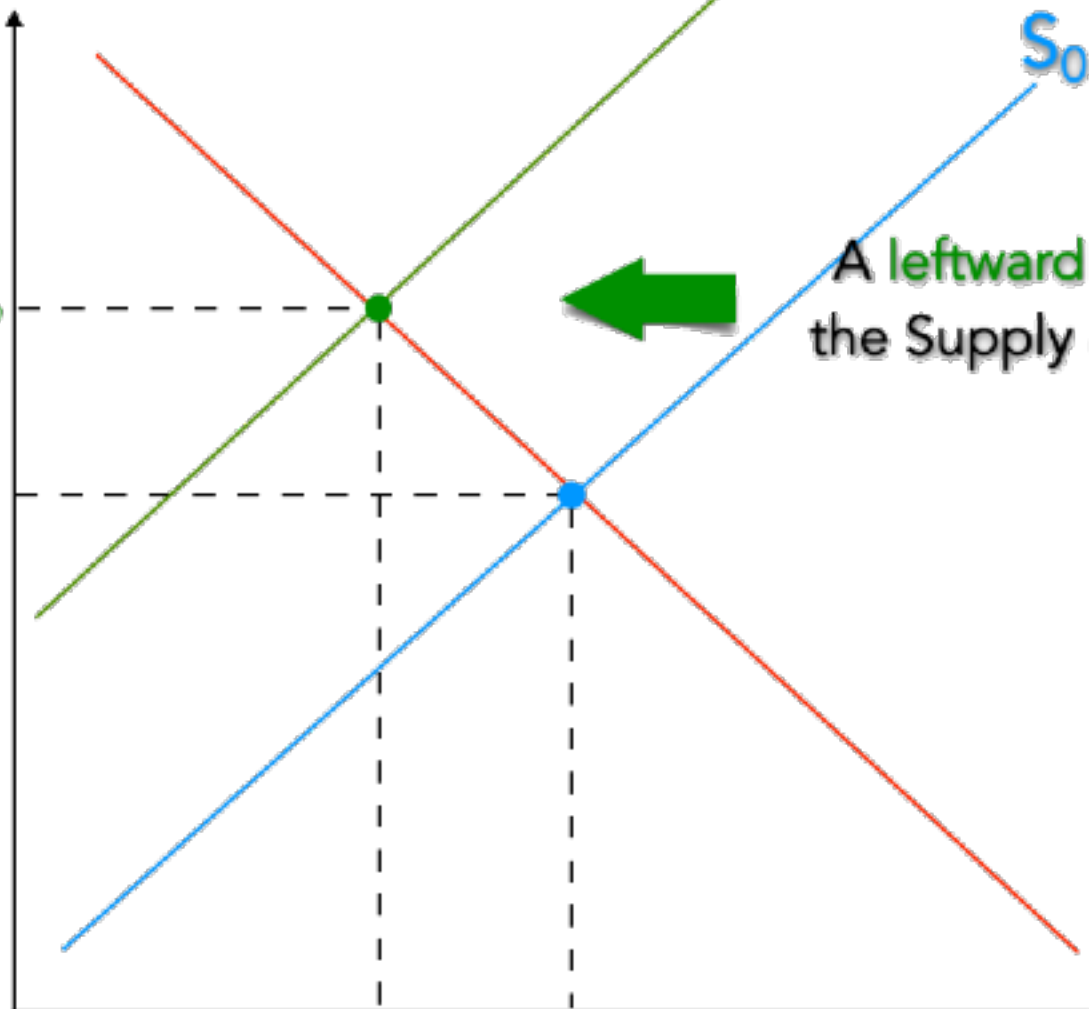
$ffr_1 = 5\%$

$ffr_e = 3\%$

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

$P_0$

$P_1$

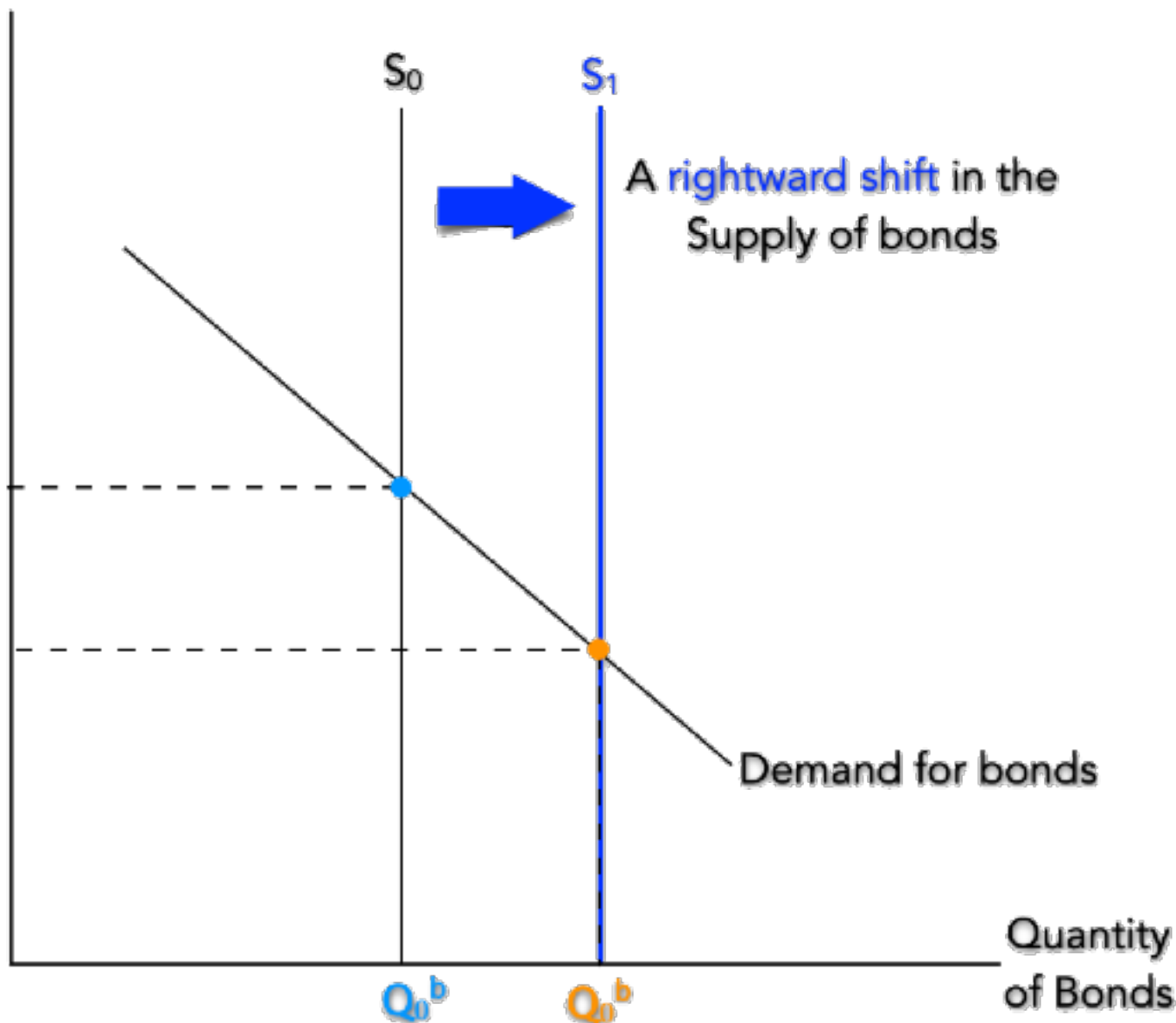
Demand for bonds

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

$Q_0^b$

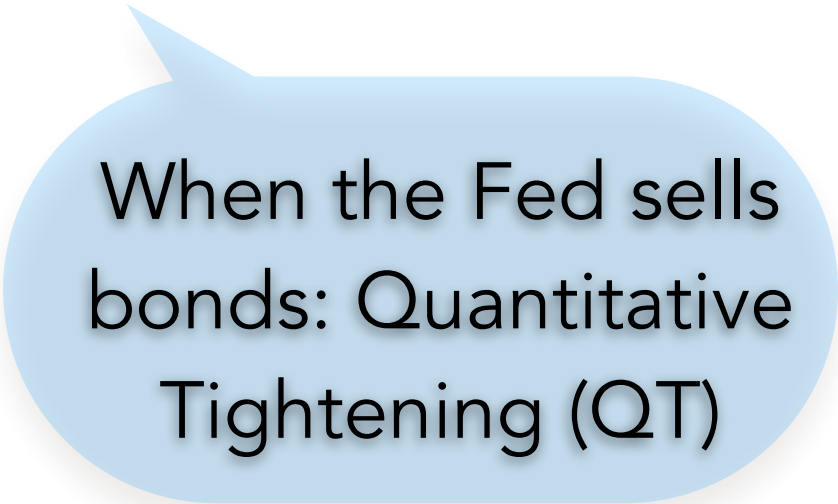
$Q_1^b$

Quantity of Bonds



Interest rates  
increase in all  
three markets

The effect of a Sale of bonds by the Fed



When the Fed sells  
bonds: Quantitative  
Tightening (QT)

The Money Market







# The Federal Funds Market

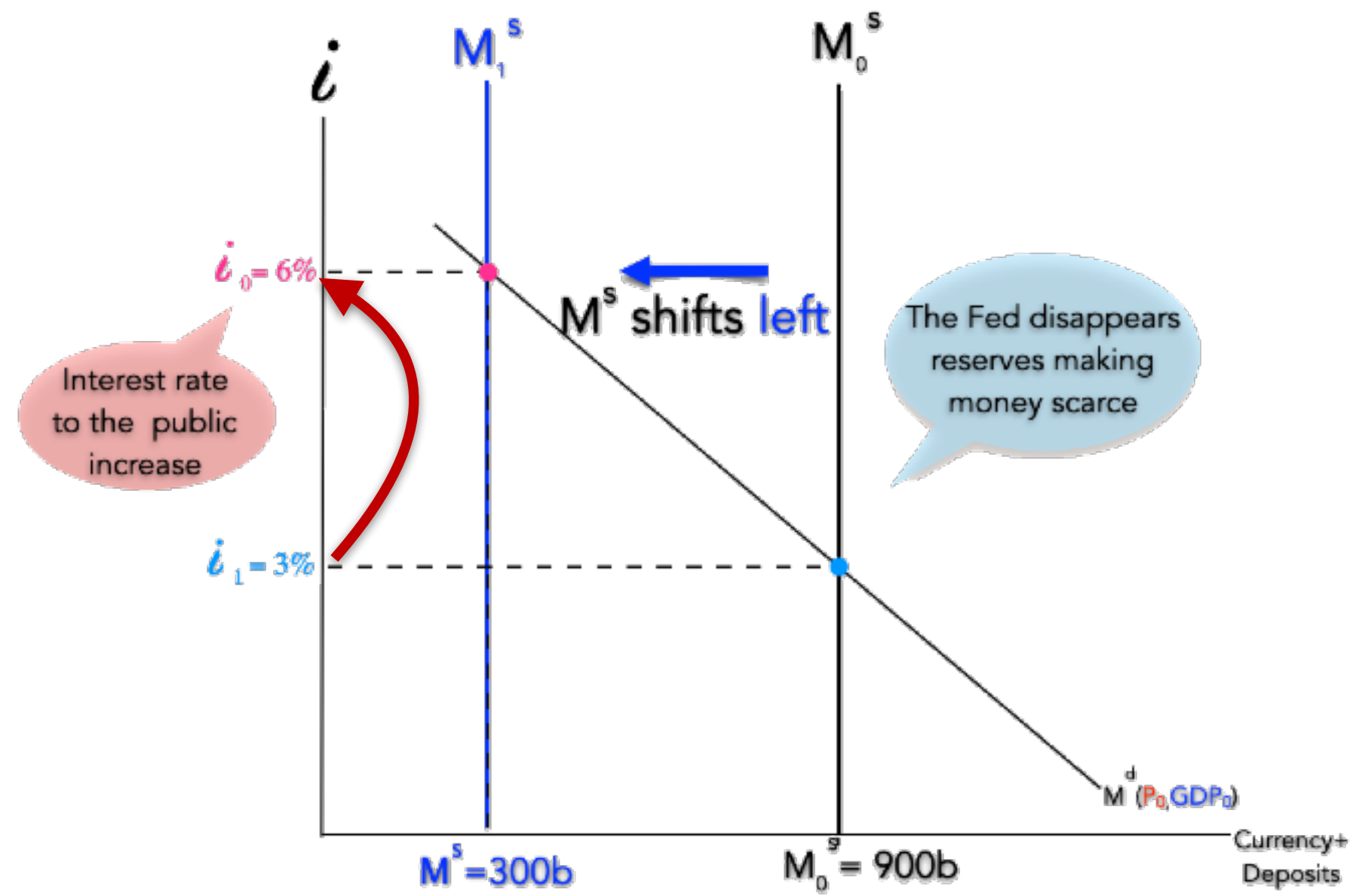


The Bond Market



# The effect of a Sale of bonds by the Fed

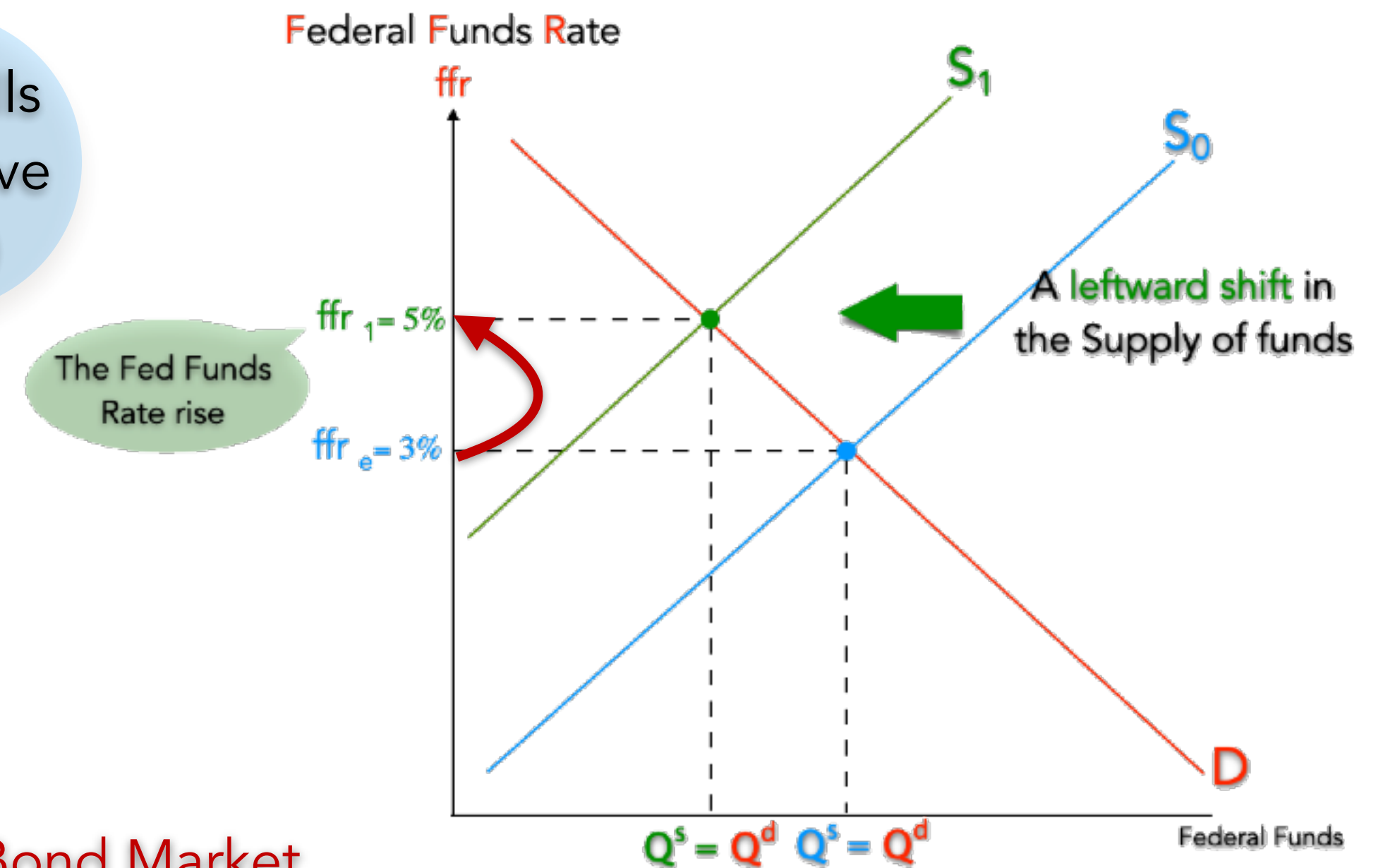
## The Money Market



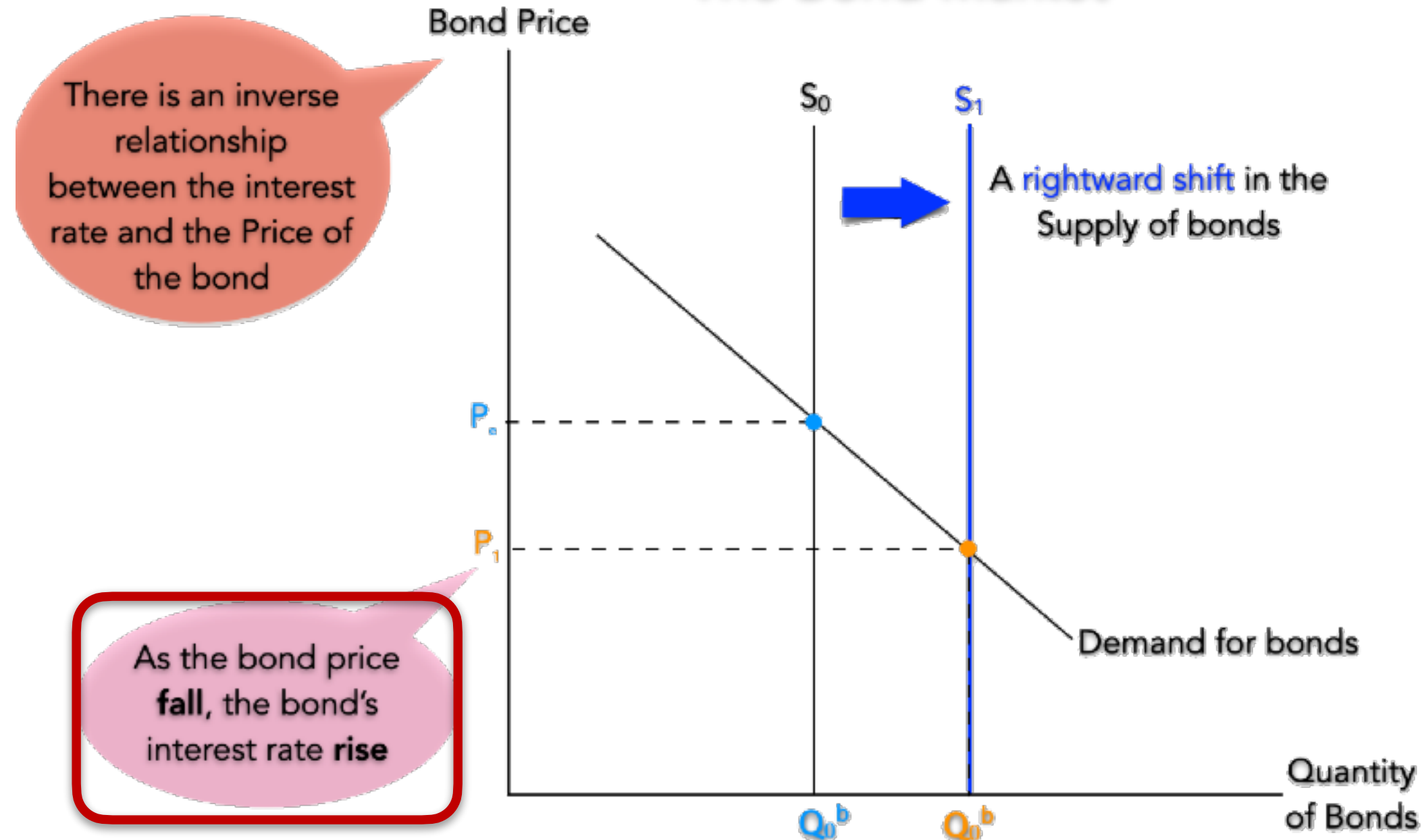
Interest rates **increase** in all three markets

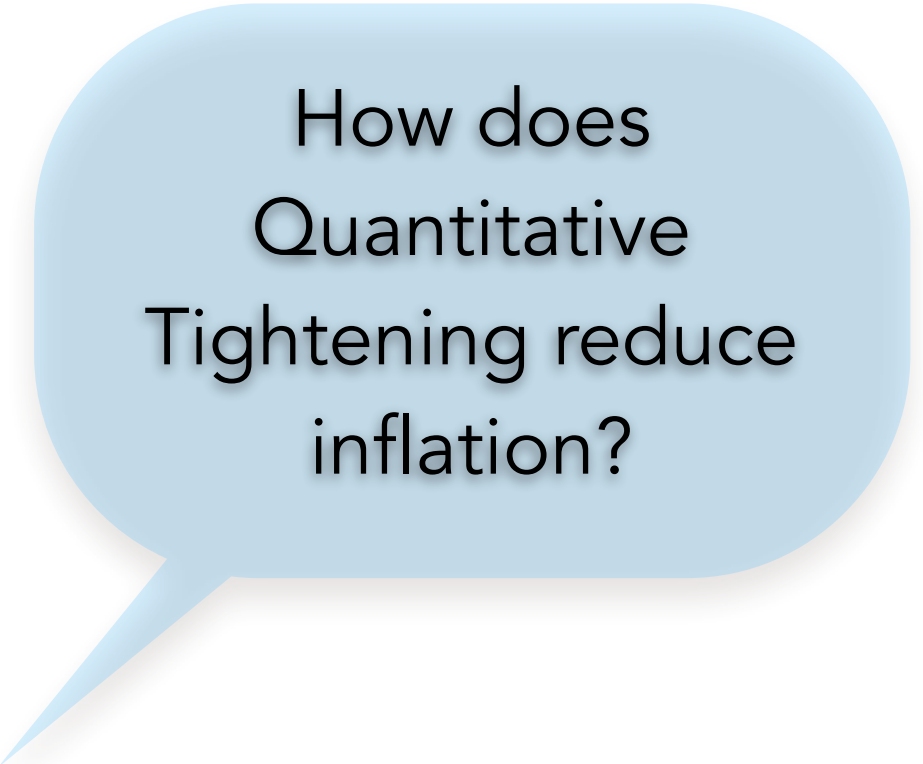
When the Fed sells bonds: Quantitative Tightening (QT)

## The Federal Funds Market



## The Bond Market





How does  
Quantitative  
Tightening reduce  
inflation?