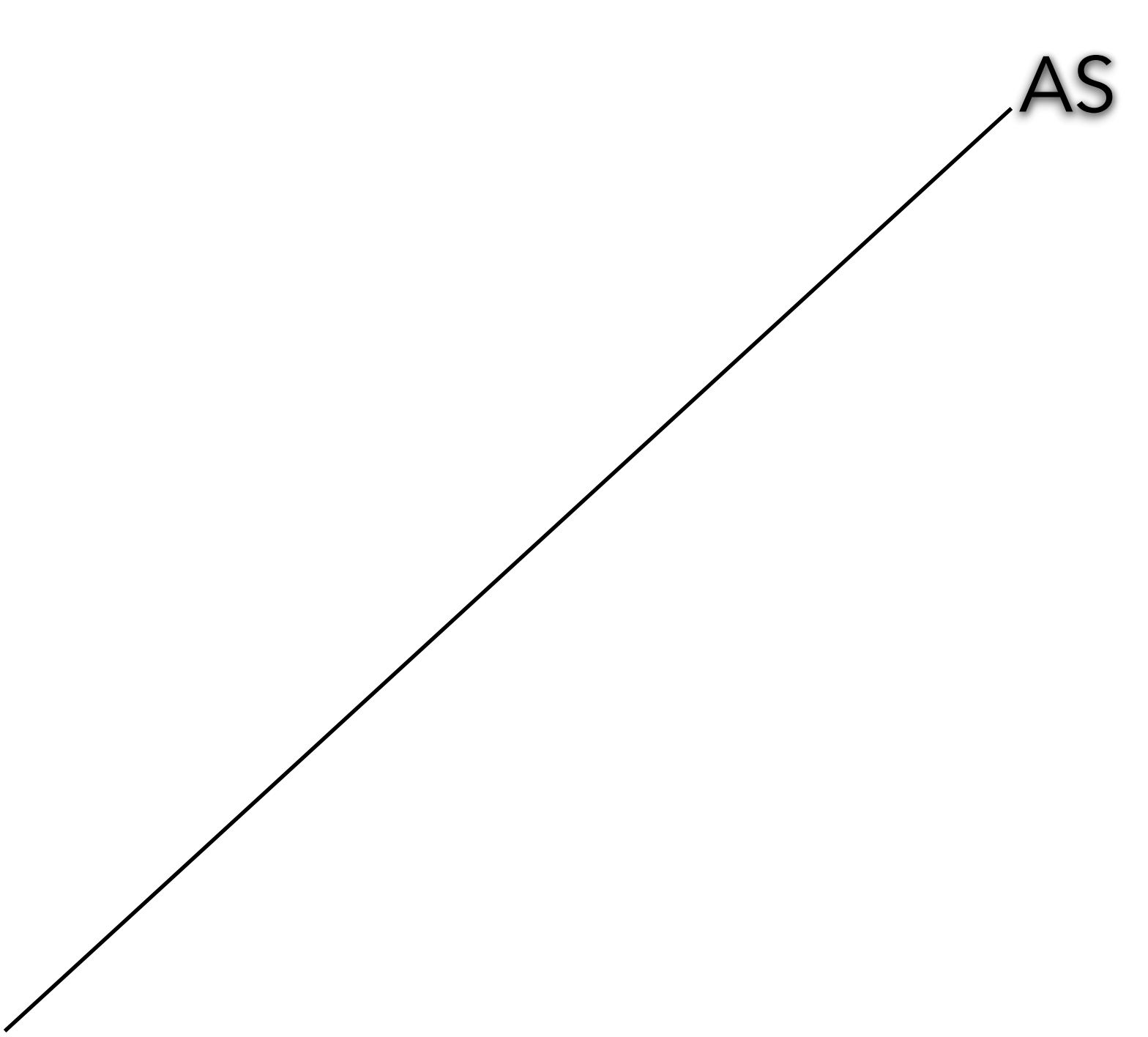
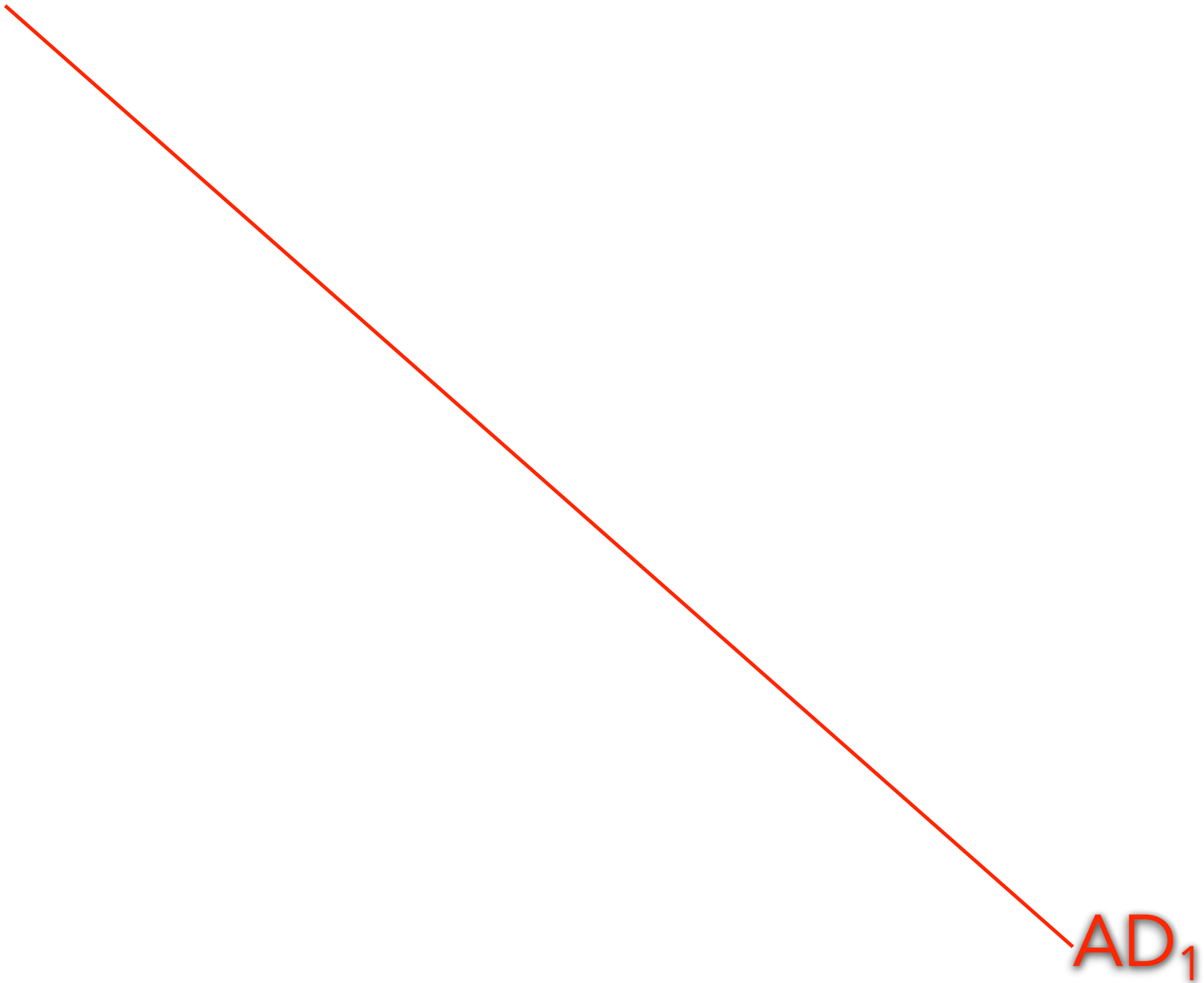
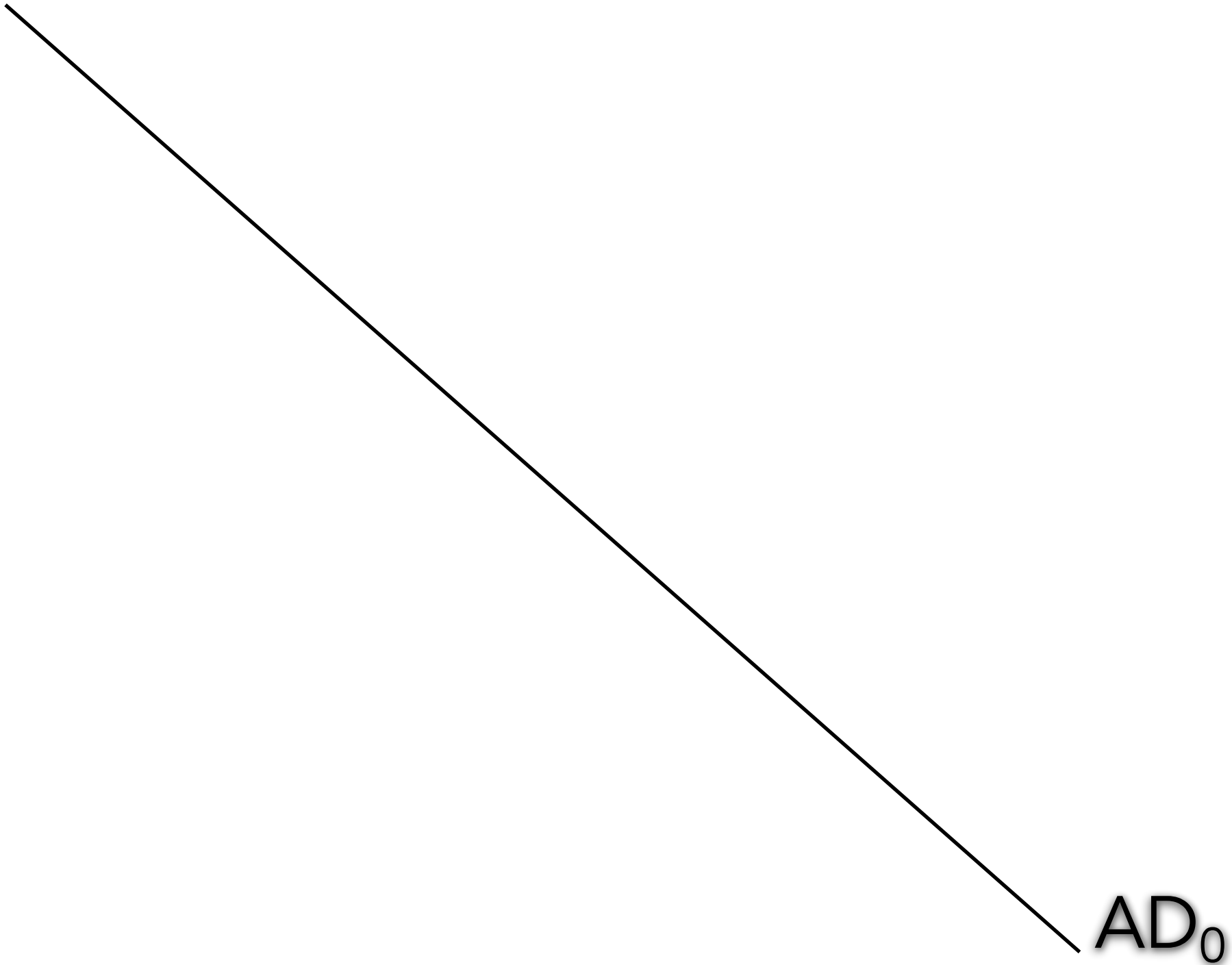


GDP₁







P_1

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GDP₀

Price Level
(CPI)



P_0

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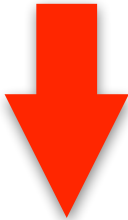
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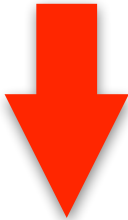
The effect of a **purchase** of bonds by the Fed
on the Goods and Services Market

GDP

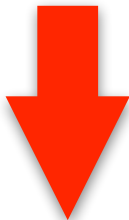
Feedbuys Bonds



Interest rates decrease



Investment **increase**



Aggregate Demand
increase

Assume the Goods and
Services Market starts at 
equilibrium



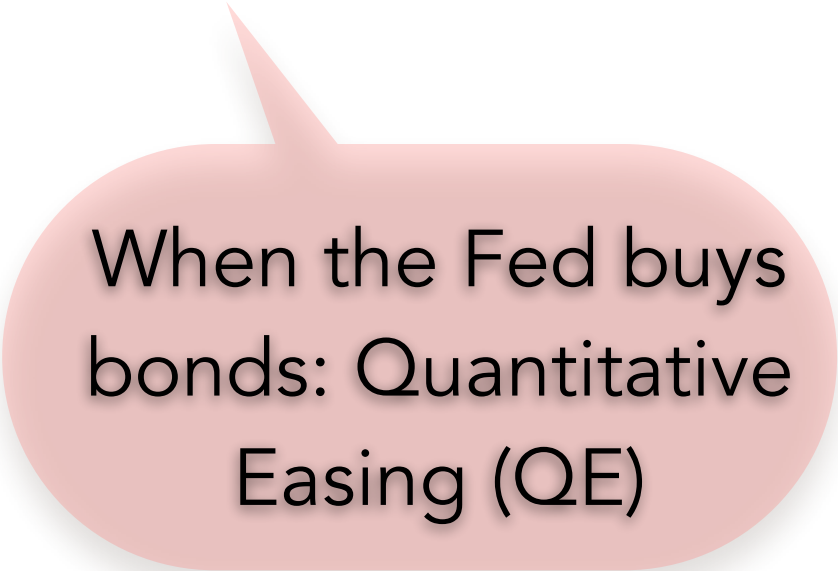
A rightward shift in
Aggregate Demand

Prices rise 

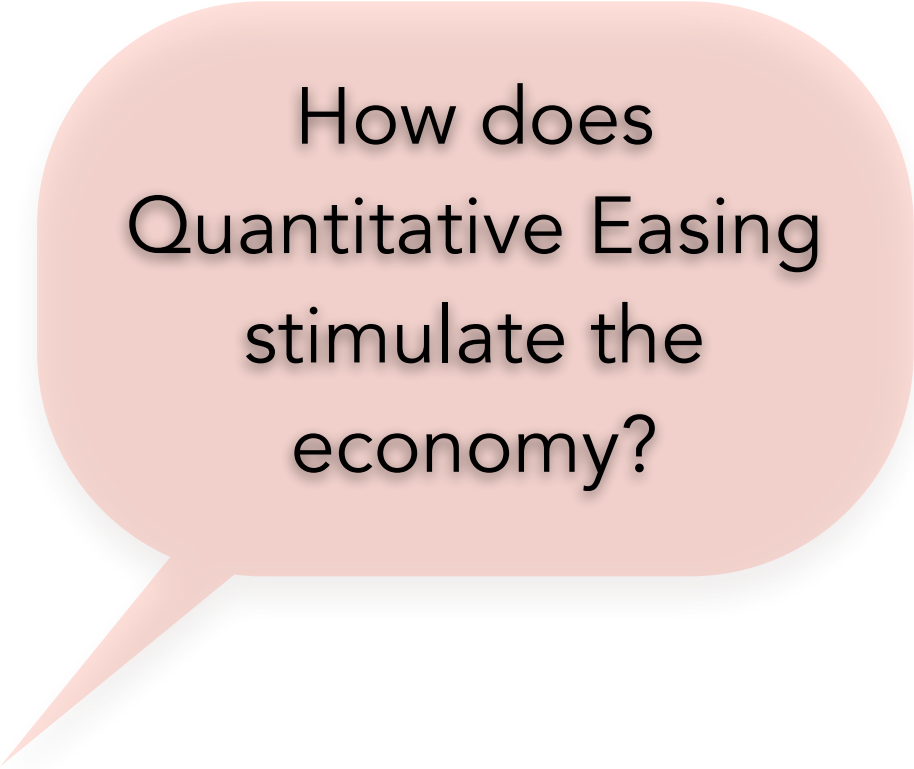
GDP increase



Unemployment decrease



When the Fed buys
bonds: Quantitative
Easing (QE)



How does
Quantitative Easing
stimulate the
economy?























2



U







a

S







b







S

V



















2















W





U













V







2



9



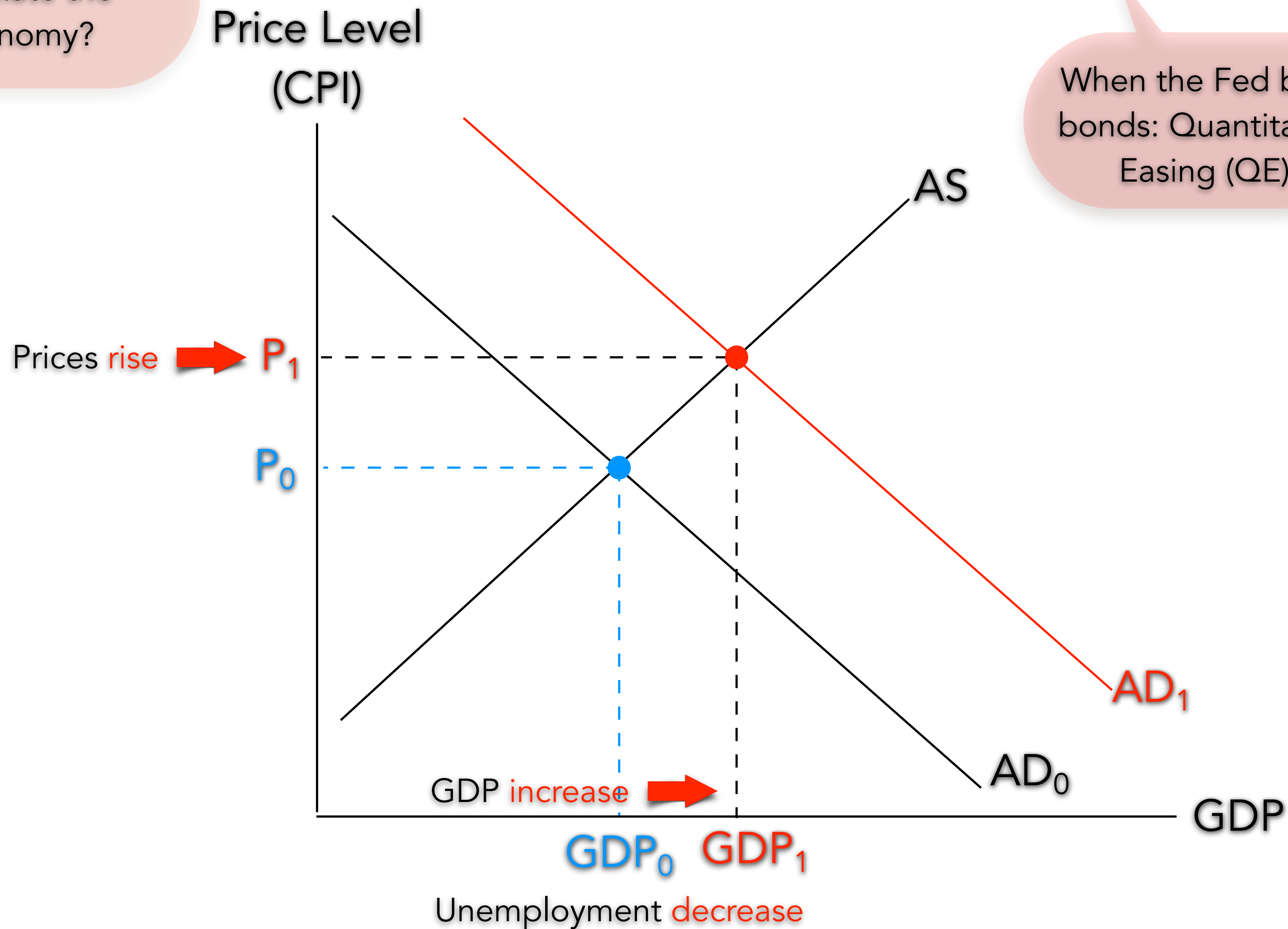


W



How does
Quantitative Easing
stimulate the
economy?

The effect of a **purchase** of bonds by the Fed on the Goods and Services Market



When the Fed buys
bonds: Quantitative
Easing (QE)

Fed **buys** Bonds

Interest rates **decrease**

Investment **increase**

Aggregate Demand
increase

The effect of a **purchase** of bonds by the Fed: Inflation, lower unemployment and growth



— Private Nonresidential Fixed Investment

— Private Residential Fixed Investment

Billions of Dollars

