

Quantity  
of Bonds

# Supply of Bonds

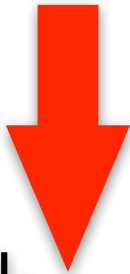


# Bond Price



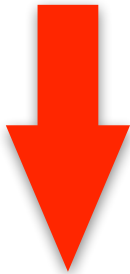
The effect of a **purchase** of bonds by the Fed  
on the Bond Market

Feedbuys Bonds



Reduces the amount of  
bonds available for sale in  
the Open Market





The Supply of bonds  
decrease



A leftward shift in the Supply of bonds

Assume the Bond Market  
starts at equilibrium



$P_e$  ————— ●

$Q_0^b$

S<sub>1</sub>




$P_0$

$Q_0^b$

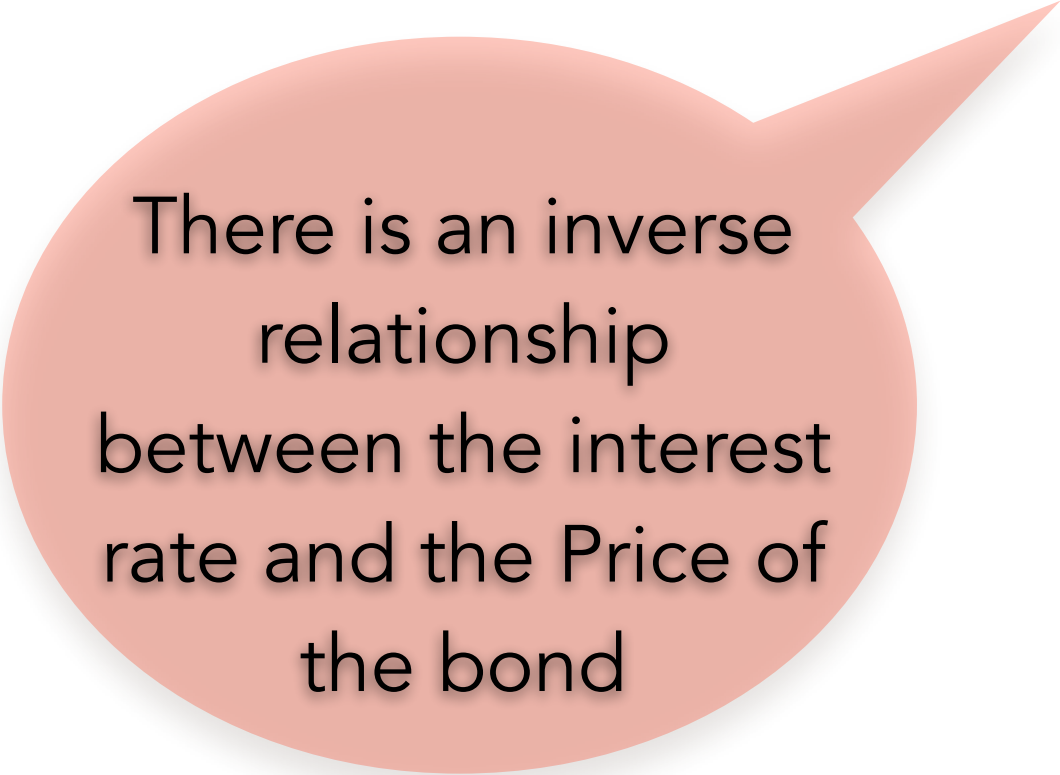
The bond price **rise** to  
a new equilibrium



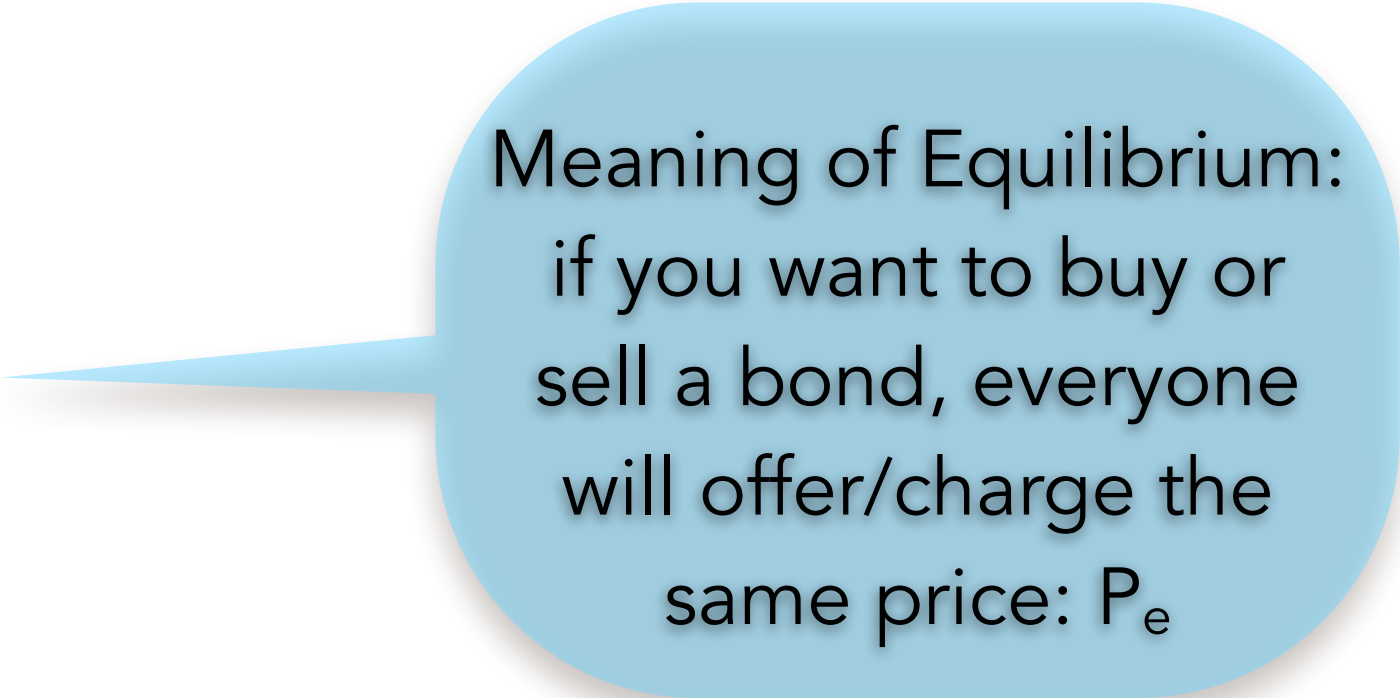
A large, light pink speech bubble with a soft drop shadow, pointing towards the bottom right corner of the frame. It contains text about the inverse relationship between bond prices and interest rates.

As the bond price  
**rise**, the bond's  
interest rate/yield  
**drops**

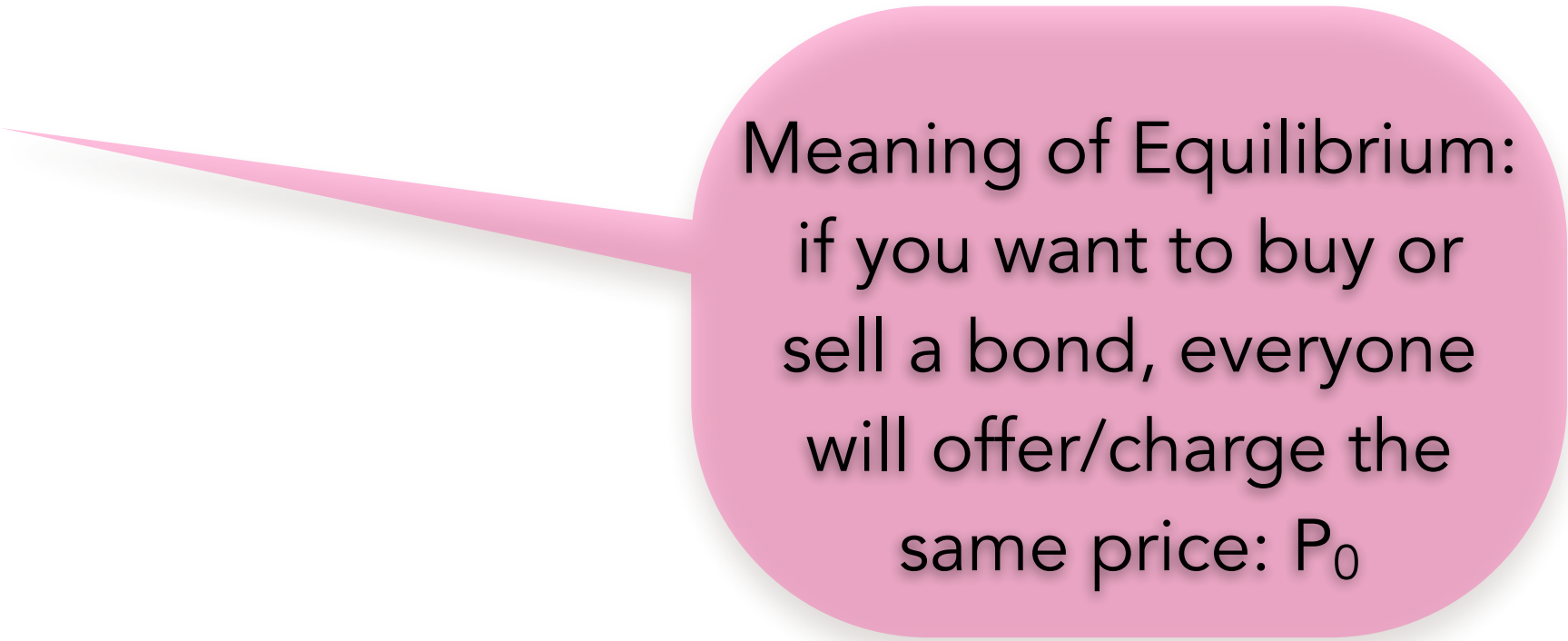




There is an inverse  
relationship  
between the interest  
rate and the Price of  
the bond



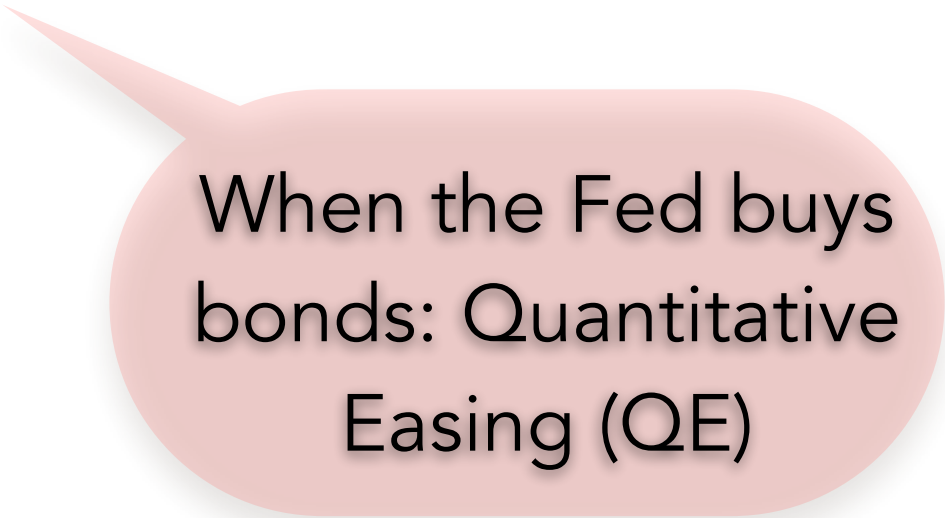
Meaning of Equilibrium:  
if you want to buy or  
sell a bond, everyone  
will offer/charge the  
same price:  $P_e$

A pink speech bubble with a long tail pointing towards the left. The bubble is rounded at the top and bottom, and the tail tapers to a point.

Meaning of Equilibrium:  
if you want to buy or  
sell a bond, everyone  
will offer/charge the  
same price:  $P_0$

So

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When the Fed buys  
bonds: Quantitative  
Easing (QE)

# The effect of a **purchase** of bonds by the Fed on the Bond Market

