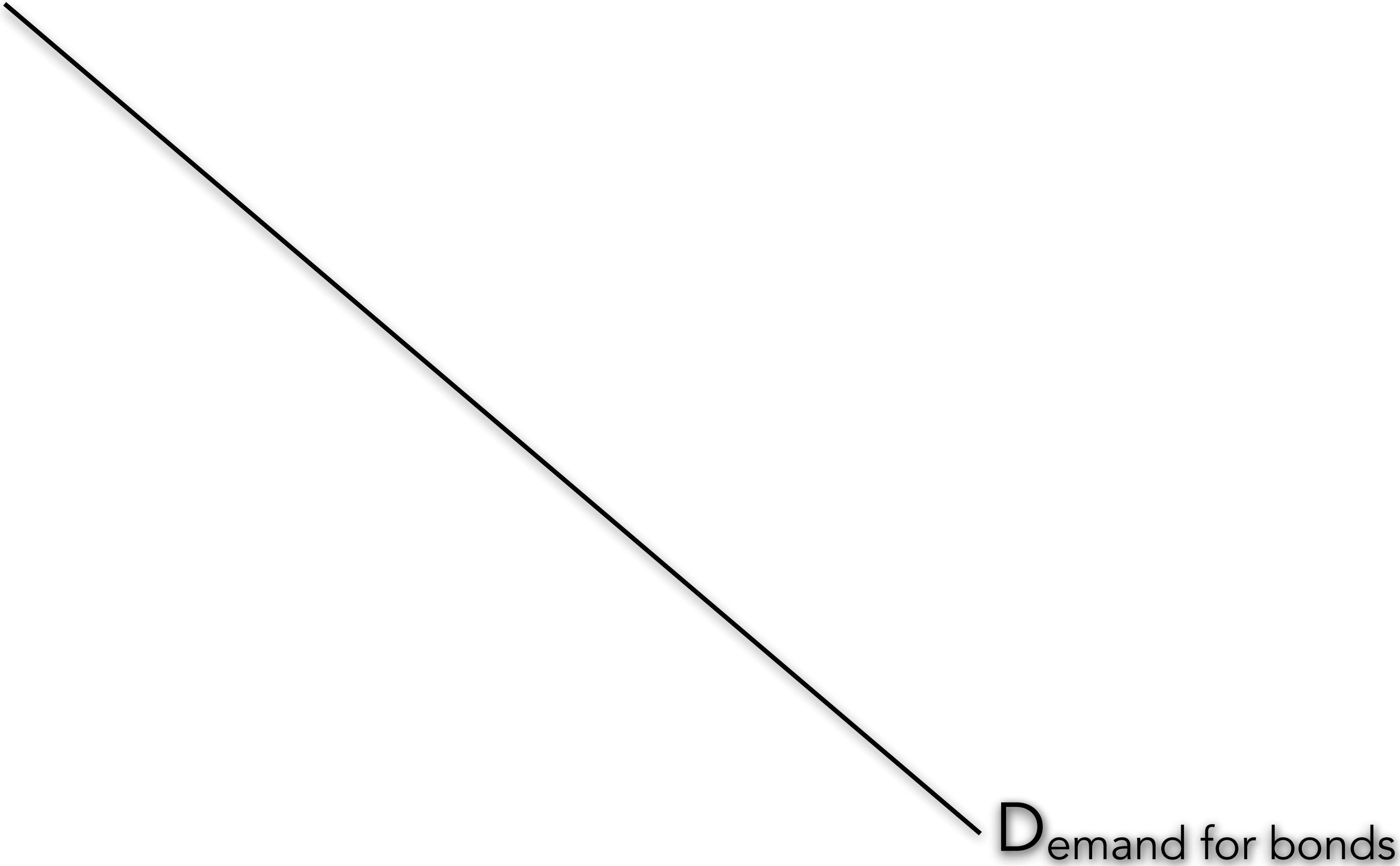

Demand for bonds

Quantity
of Bonds

Supply of Bonds

Bond Price

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

Fed buys Bonds

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

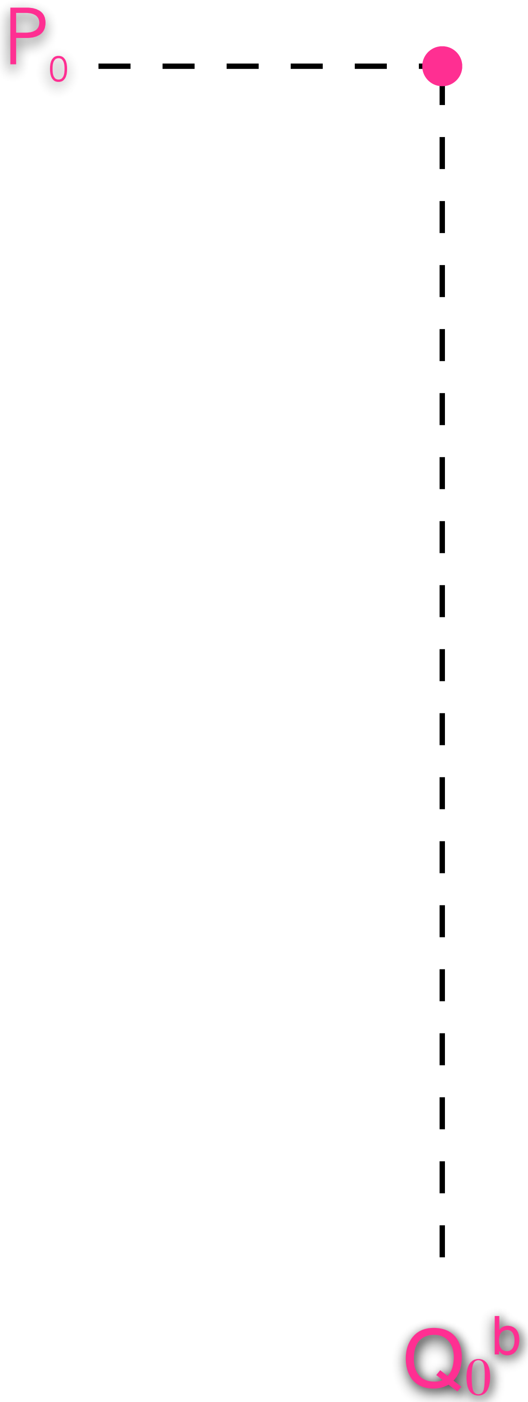
The Supply of bonds decrease

A leftward shift in the Supply of bonds

Assume the Bond Market starts at equilibrium


P_e
Q_0^b

S_1


P_0
Q_0^b

The bond price rise to a new equilibrium

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

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

S_0

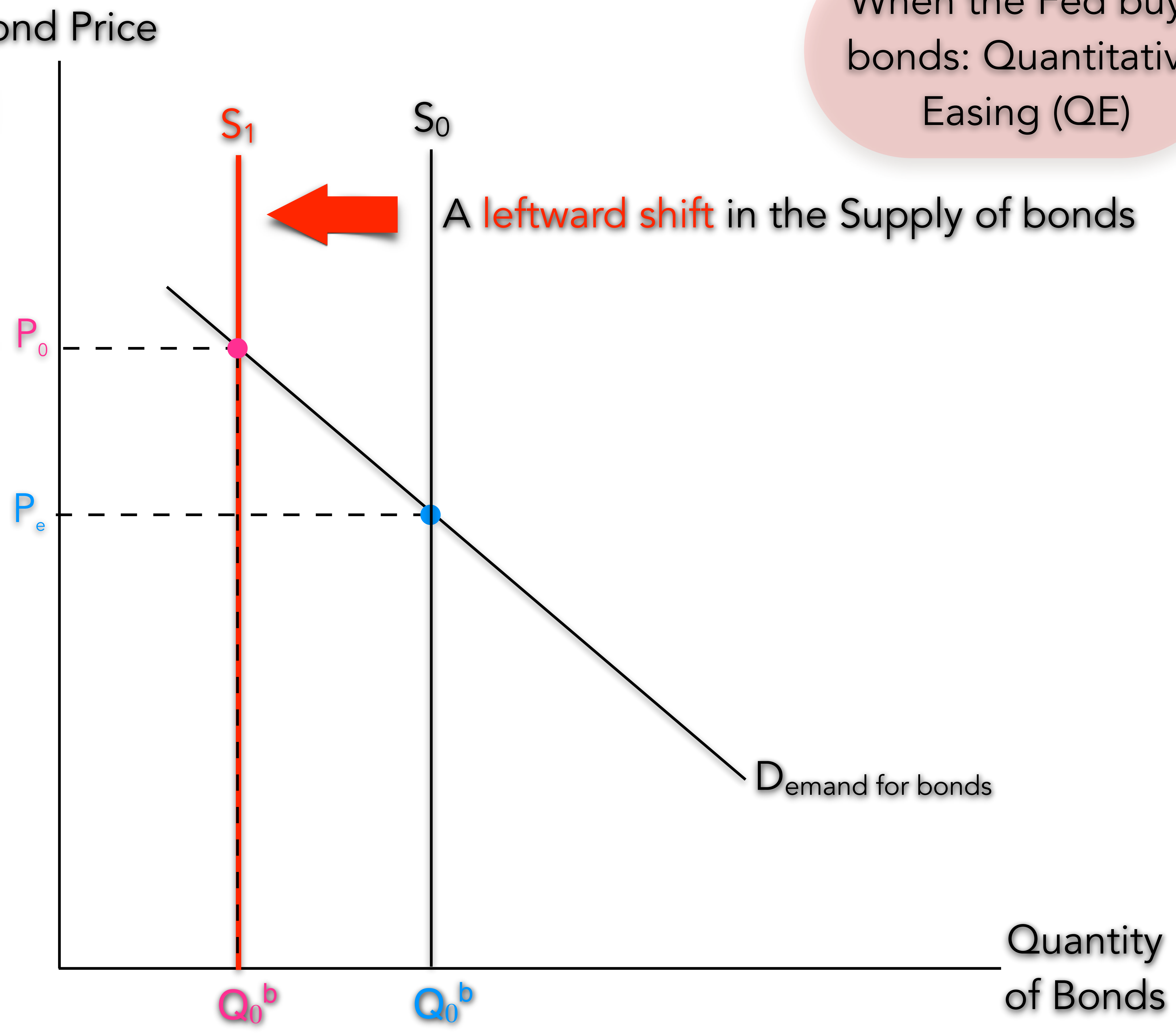
When the Fed buys bonds: Quantitative Easing (QE)

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

When the Fed buys bonds: Quantitative Easing (QE)

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

The bond price rise to a new equilibrium



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

Fed buys Bonds

↓

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

↓

The Supply of bonds decrease