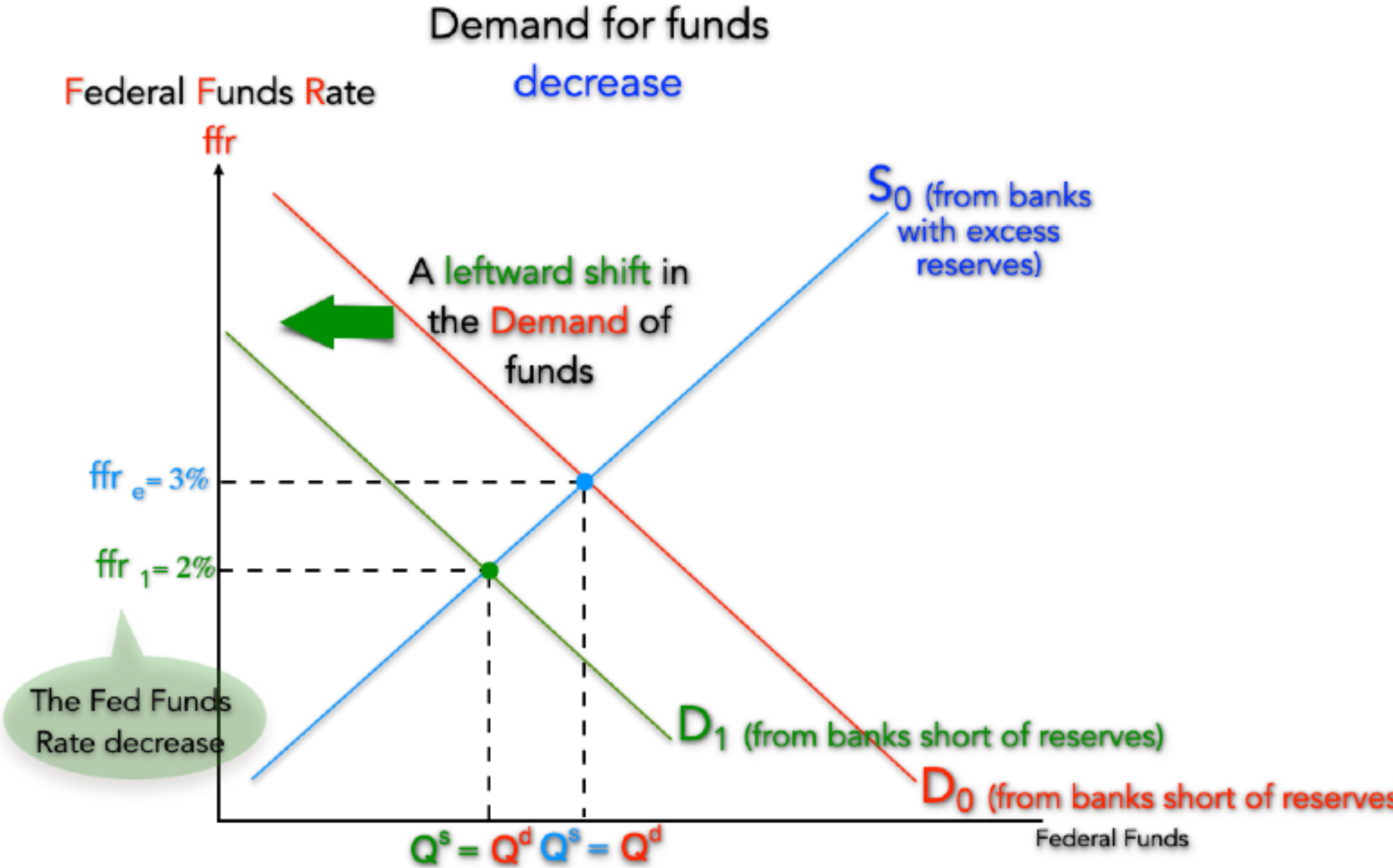
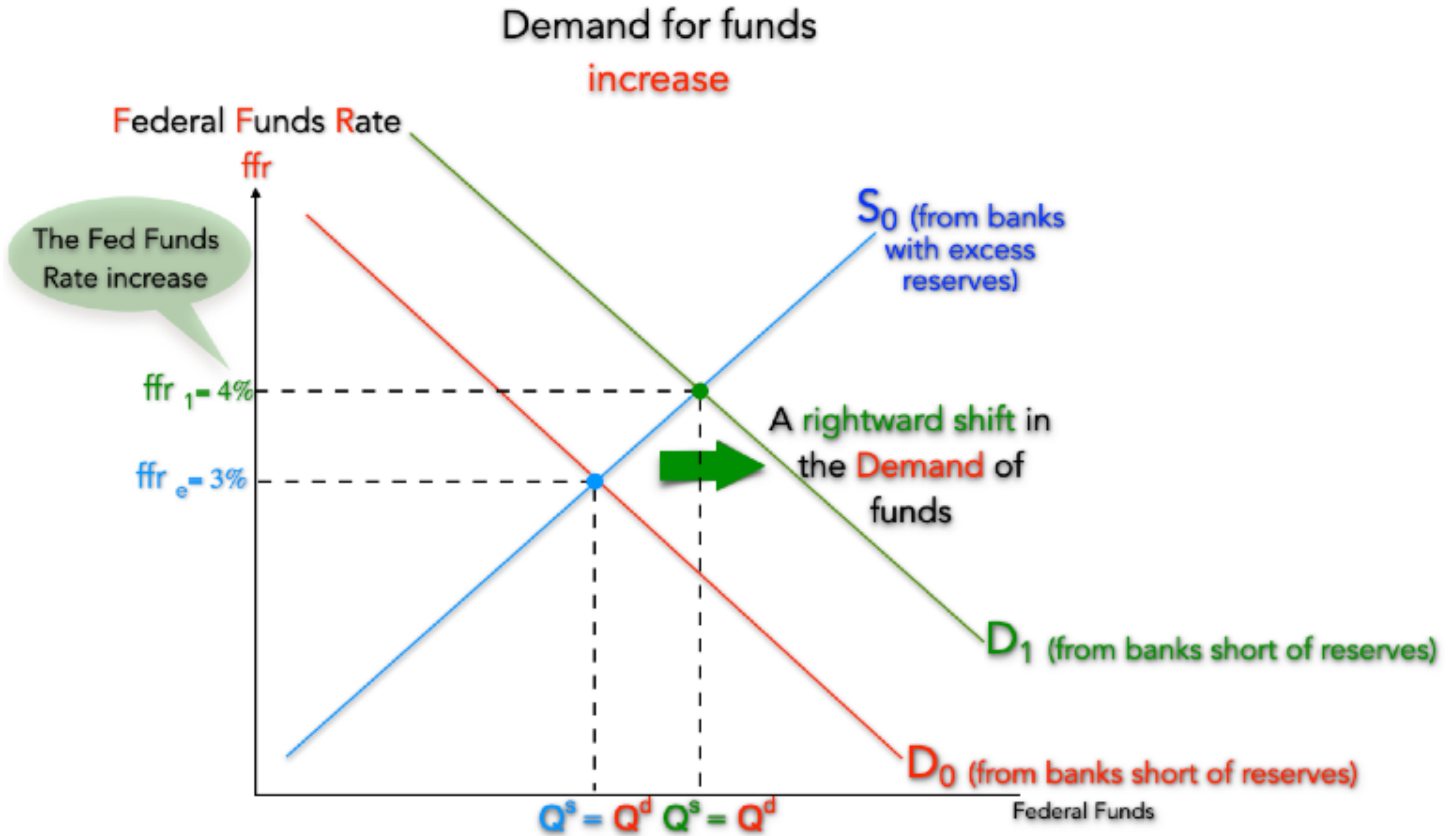


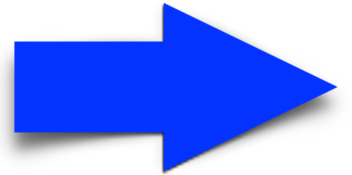
Demand for funds
decrease
Federal Funds Rate
ffr
S0 (from banks with excess reserves)
A leftward shift in the Demand of funds
ffr e= 3%
ffr 1= 2%
The Fed Funds Rate decrease
D1 (from banks short of reserves)
D0 (from banks short of reserves)
Qs = Qd Qs = Qd
Federal Funds


Demand for funds
increase
Federal Funds Rate
ffr
The Fed Funds Rate increase
S_0 (from banks with excess reserves)
ffr $_1$= 4%
ffr $_e$= 3%
A rightward shift in the Demand of funds
D_1 (from banks short of reserves)
D_0 (from banks short of reserves)
$Q^s = Q^d$ $Q^s = Q^d$
Federal Funds

Monetary Policy Tools

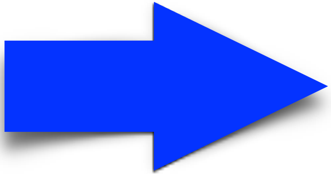
3. Required Reserves Ratio

When the Fed Increase the Required Reserves Ratio, more banks become Short of Reserves

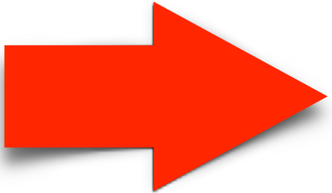


Increase in the Demand for Federal Funds

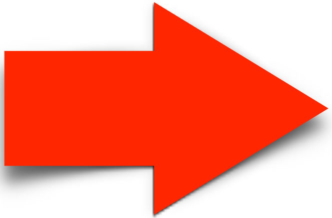
The Federal Funds Rate decrease



When the Fed Decrease the Required Reserves Ratio, fewer banks will be short of reserves



Decrease in the Demand of Federal Funds



The Federal Funds Rate increase

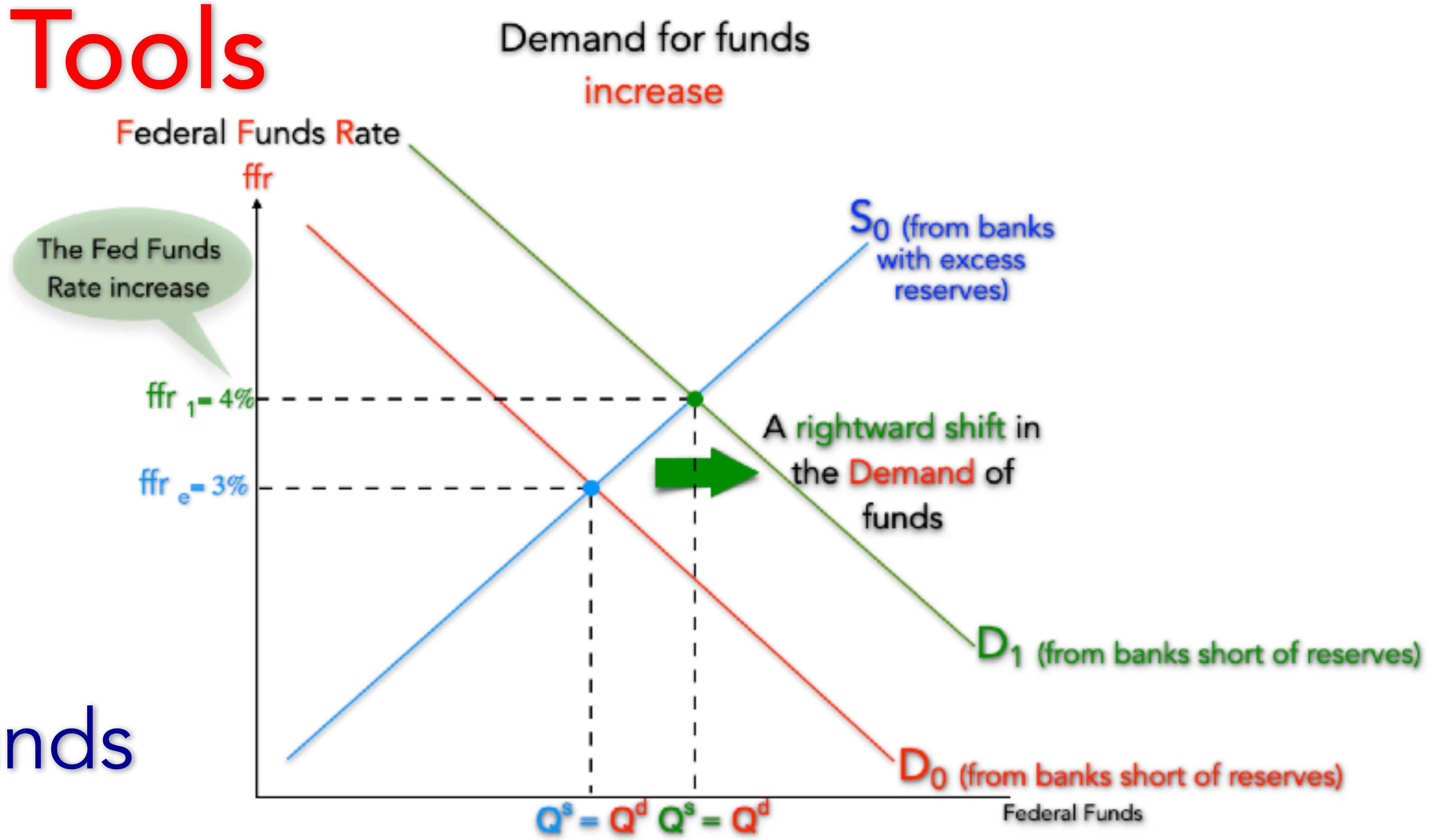
Monetary Policy Tools

3. Required Reserves Ratio

When the Fed Increase the Required Reserves Ratio, more banks become Short of Reserves

Increase in the Demand for Federal Funds

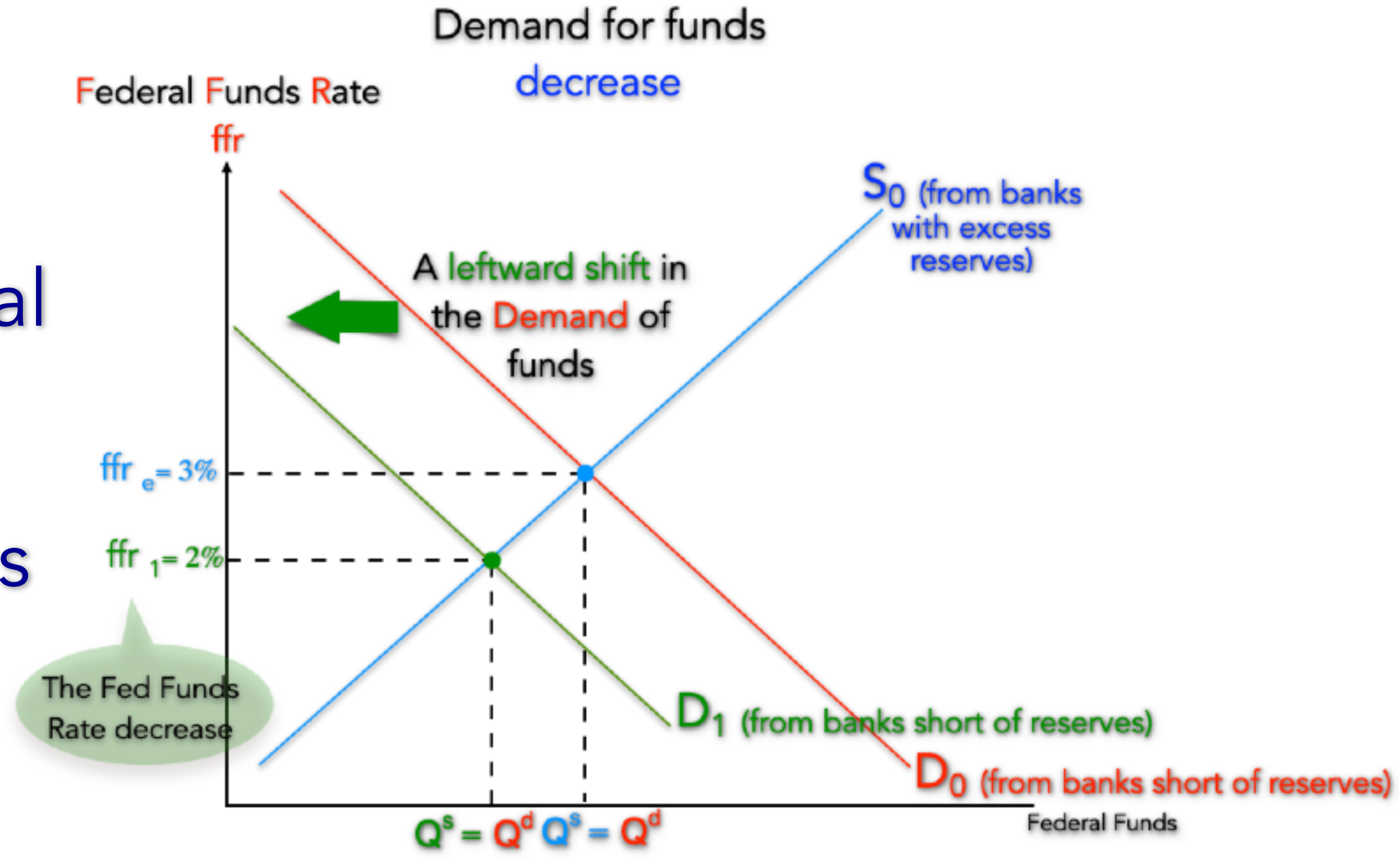
The Federal Funds Rate increase



When the Fed Decrease the Required Reserves Ratio, fewer banks will be short of reserves

Decrease in the Demand of Federal Funds

The Federal Funds Rate decrease



The Yield Curve Plots yield on Government Bills, Notes and Bonds