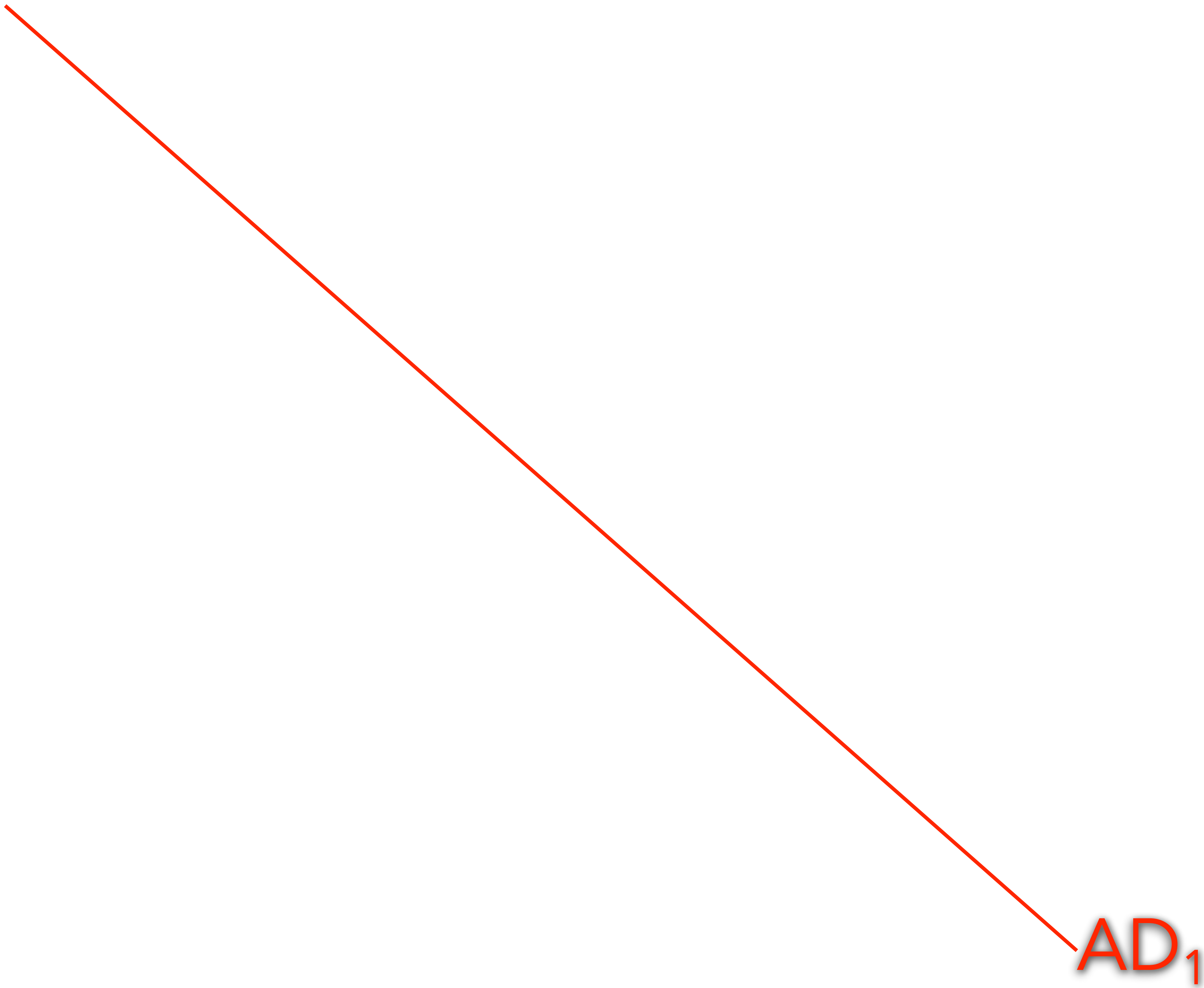
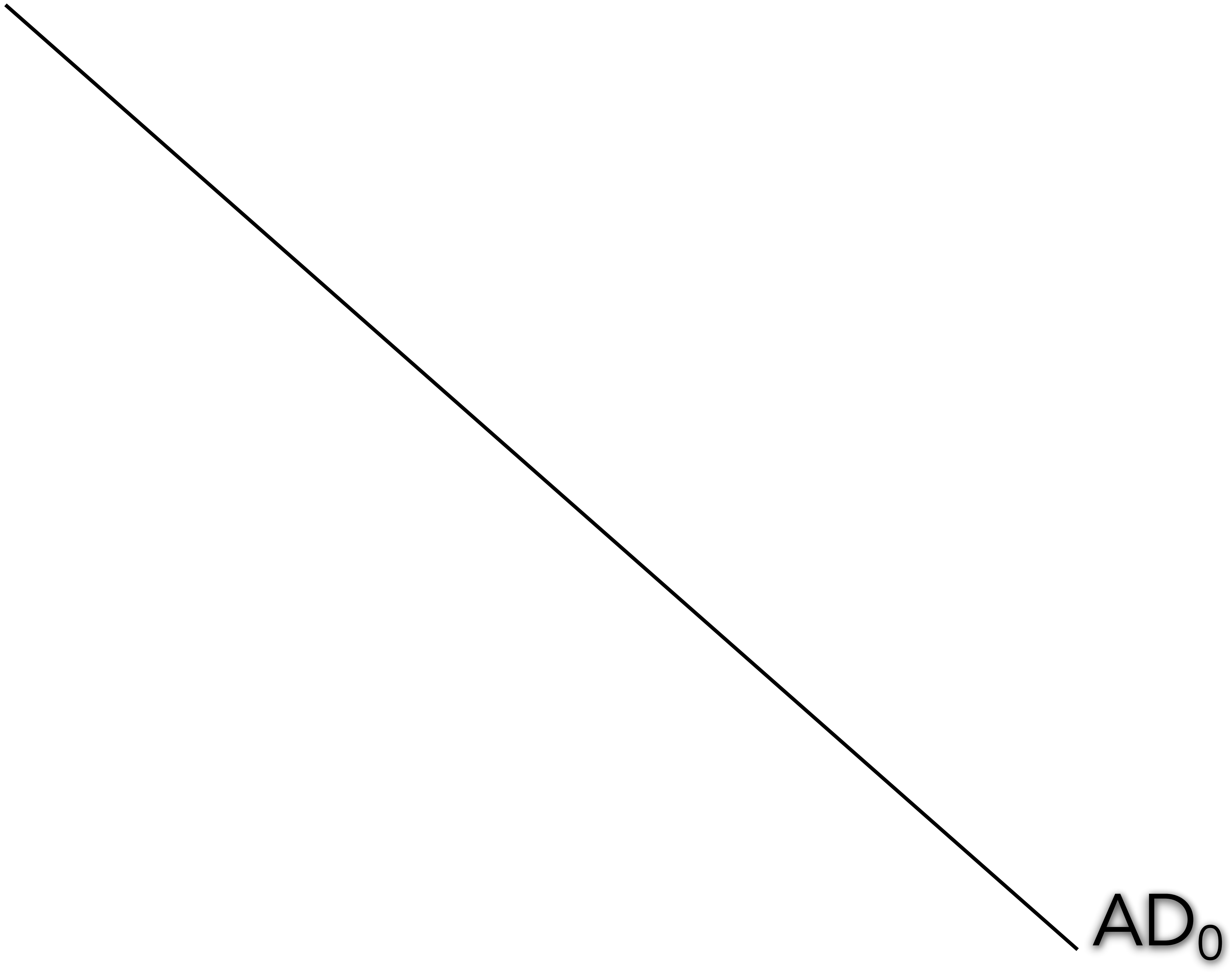
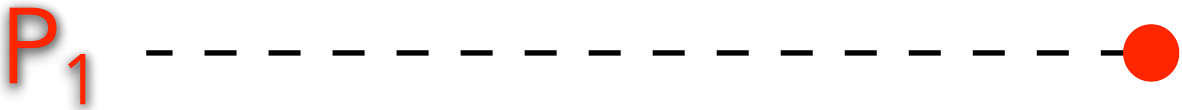
$GDP_1$

AS


$AD_1$


$AD_0$



$P_1$

$GDP_0$

Price Level
(CPI)


$P_0$

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

GDP

Fed buys 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?

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Quantitative Easing
stimulate the economy
by increasing
**Aggregate Demand**

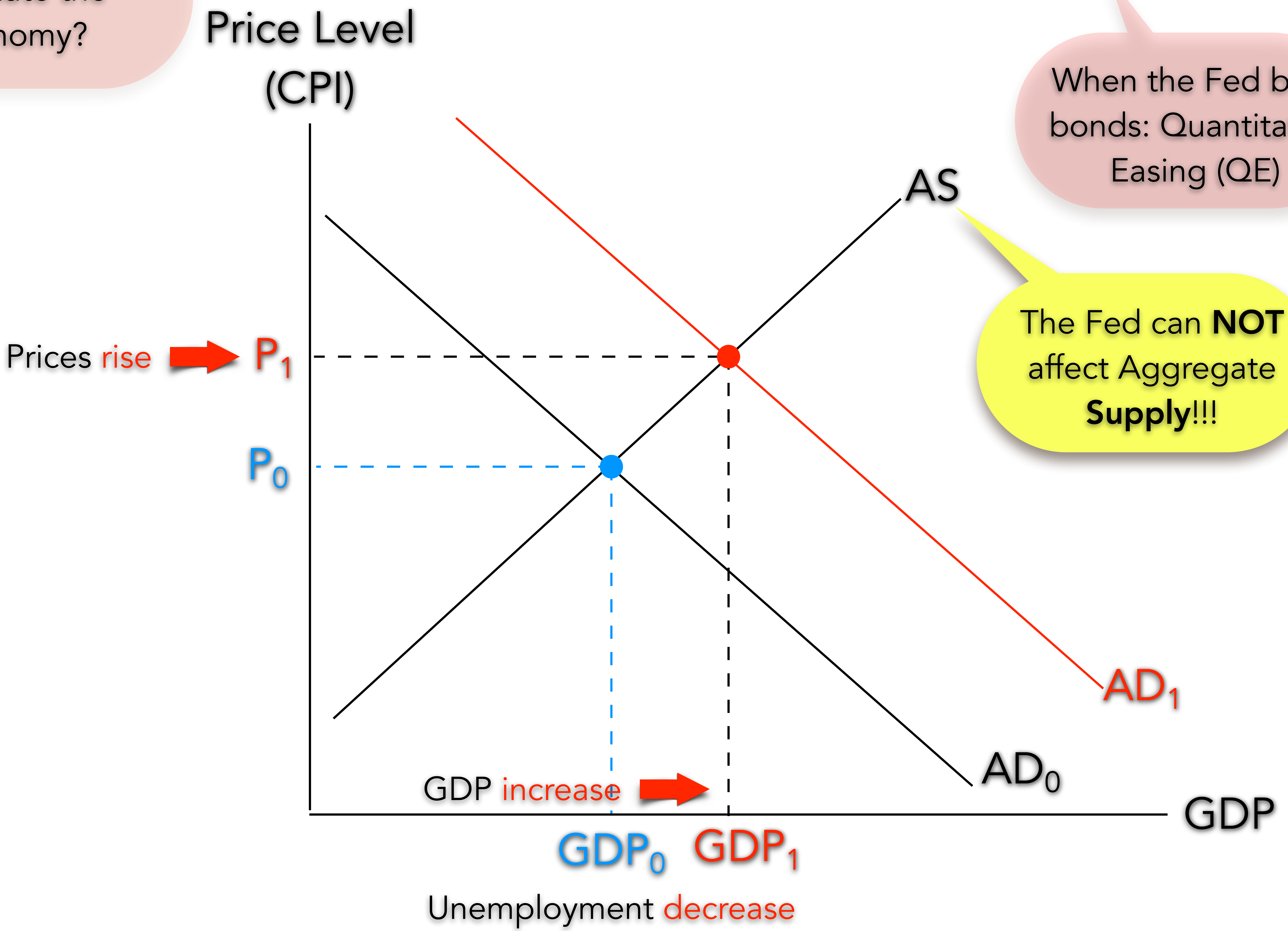
The Fed can **NOT** affect Aggregate **Supply**!!!

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

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

How does Quantitative Easing stimulate the economy?

When the Fed buys bonds: Quantitative Easing (QE)




Fed buys Bonds

↓

Interest rates decrease

↓

Investment increase

↓

Aggregate Demand increase

Quantitative Easing stimulate the economy by increasing **Aggregate Demand**

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

FRED
Private Nonresidential Fixed Investment
Private Residential Fixed Investment
Billions of Dollars
3,200
2,800
2,400
2,000
1,600
1,200
800
400
Q2 2018
Q3 2018
Q1 2019
Q2 2019
Q3 2019
Q1 2020
Q2 2020
Q3 2020
Q1 2021
Q2 2021
Q3 2021