







e













2





U





S



M

2

































**b**

U









S







2

**V**



**b**

2







S





S





2

V





























6





U













S







V



S

R

[REDACTED]

[REDACTED]









Some banks end  
with less in  
reserves than  
required

Some banks end  
the day with more  
reserves than  
required

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Borrowed Funds

*i*





D funds

These banks  
want a low  
interest rate

---

# Loanable Funds

*i*



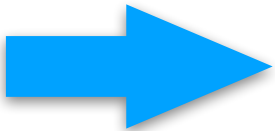


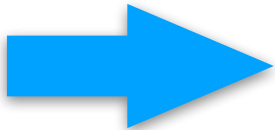
$S_{\text{funds}}$

A solid blue line starts at the bottom-left and extends diagonally upwards to the top-right, representing a positive linear relationship.

These banks  
want a high  
interest rate

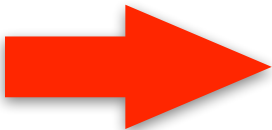
These banks with  
excess reserves, want  
to lend these reserves  
to other banks

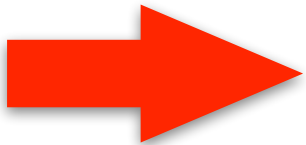




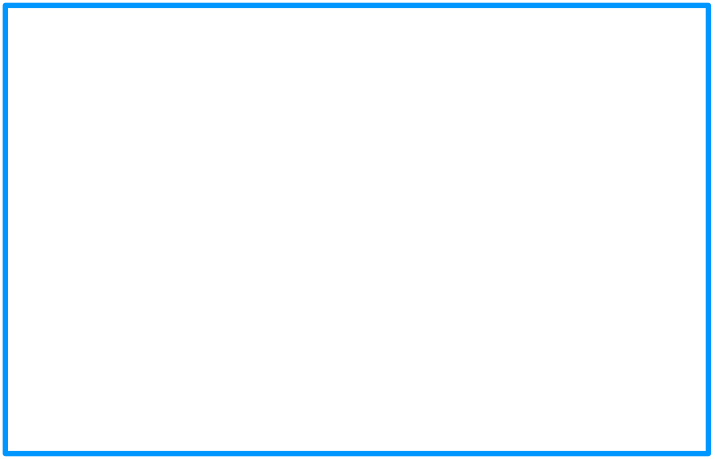
This creates a  
**Supply** of funds  
for lending

These banks **short**  
**of reserves**, must  
**borrow** reserves  
from other banks





This creates a  
**Demand** for  
borrowing funds











**B**





2



S











S





U









2















2

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S

W















**F**















S



2













S



29











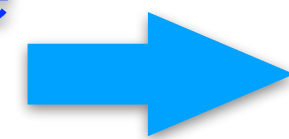
At the end of business day, banks must have  
the required amount of reserves  $R = r^*D$

Because these funds are held  
as deposits with the Fed, this  
market is called

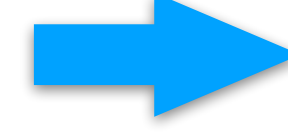
# The Federal Funds Market

At the end of business day, banks must have the required amount of reserves  $R = r * D$

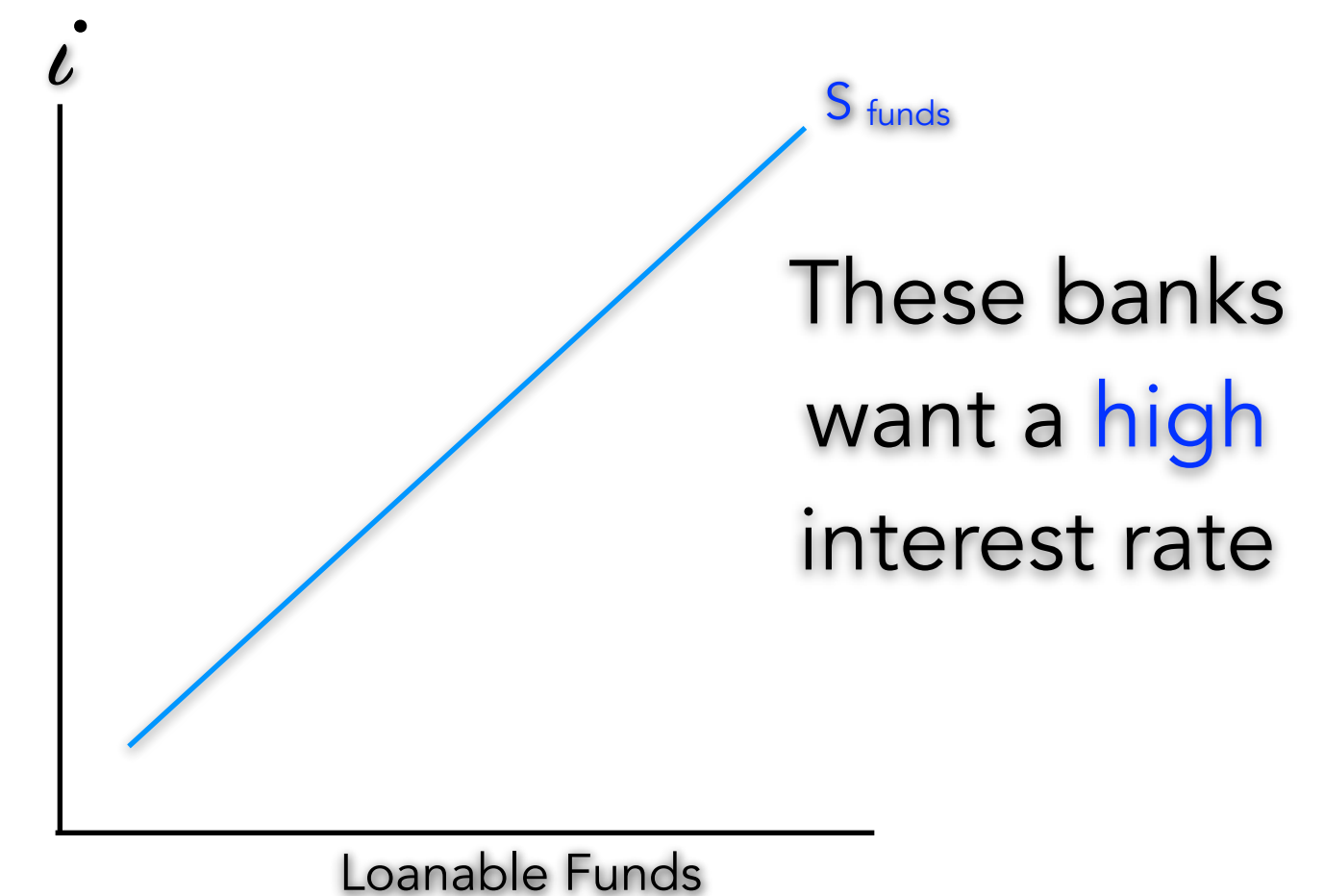
Some banks end the day with **more** reserves than required



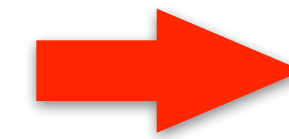
These banks with **excess reserves**, want to **lend** these reserves to other banks



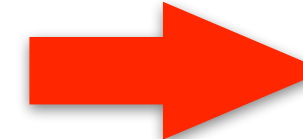
This creates a **Supply** of funds for lending



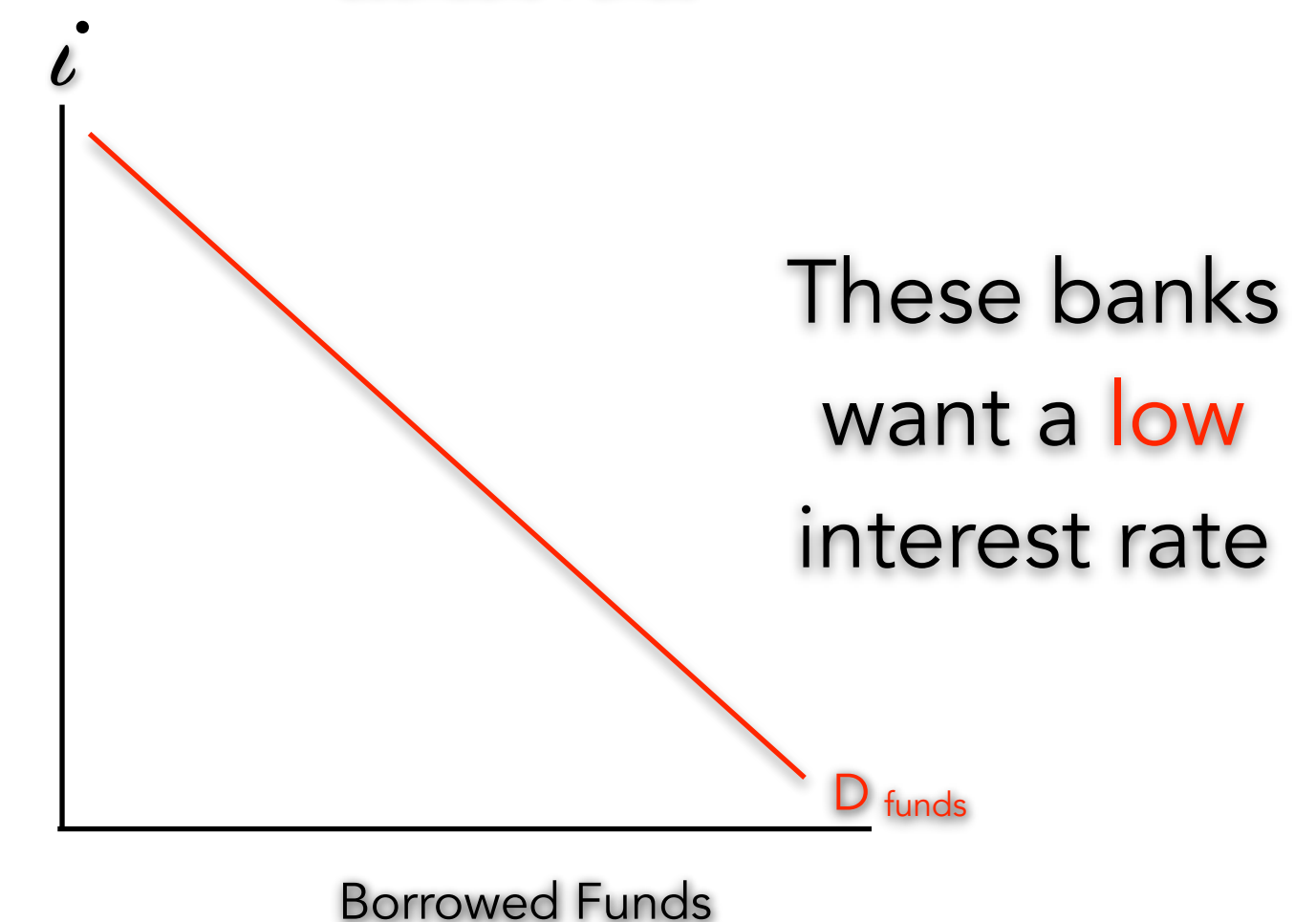
Some banks end with **less** in reserves than required



These banks **short of reserves**, must **borrow** reserves from other banks



This creates a **Demand** for borrowing funds



# The Federal Funds Market