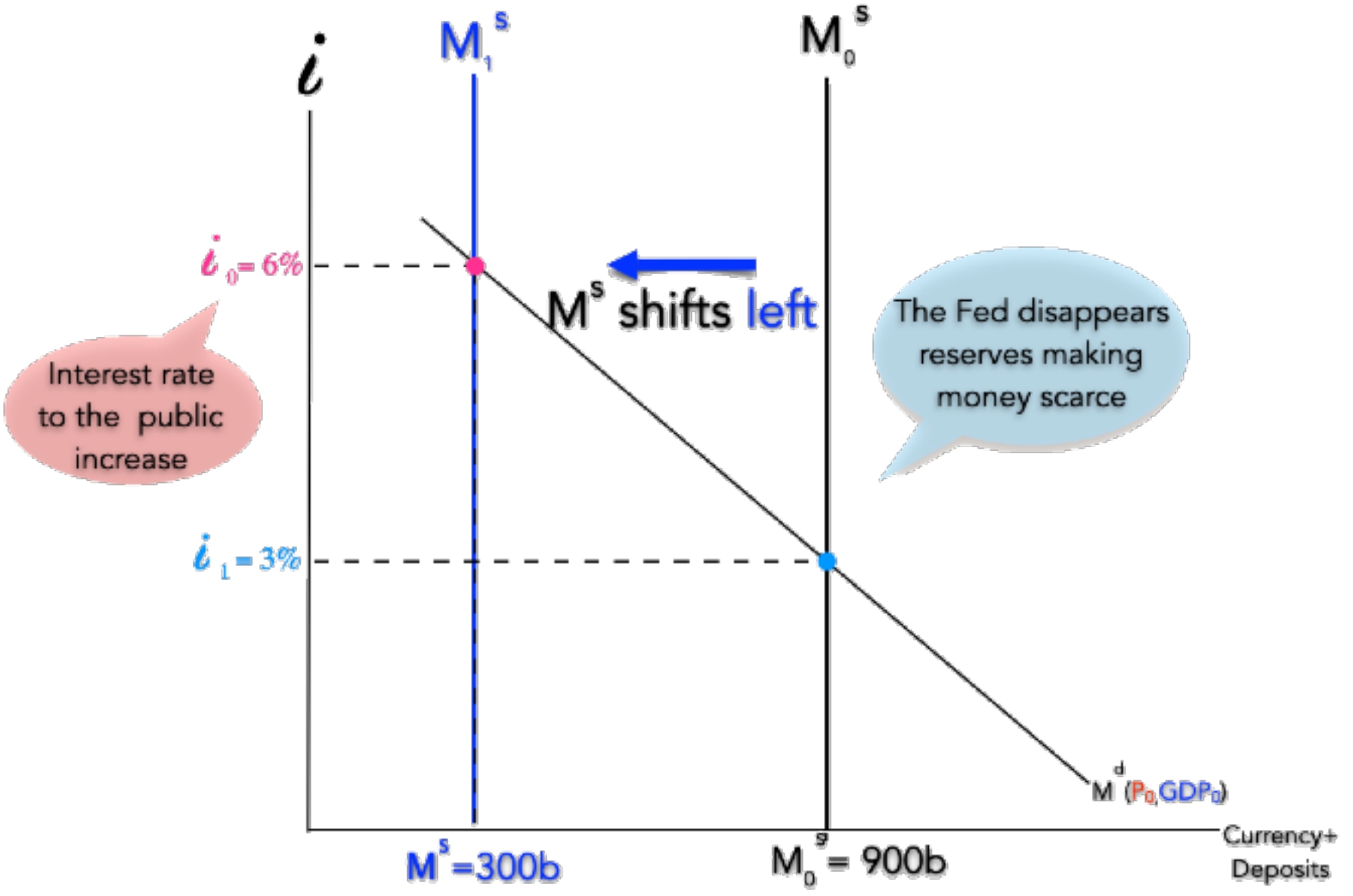
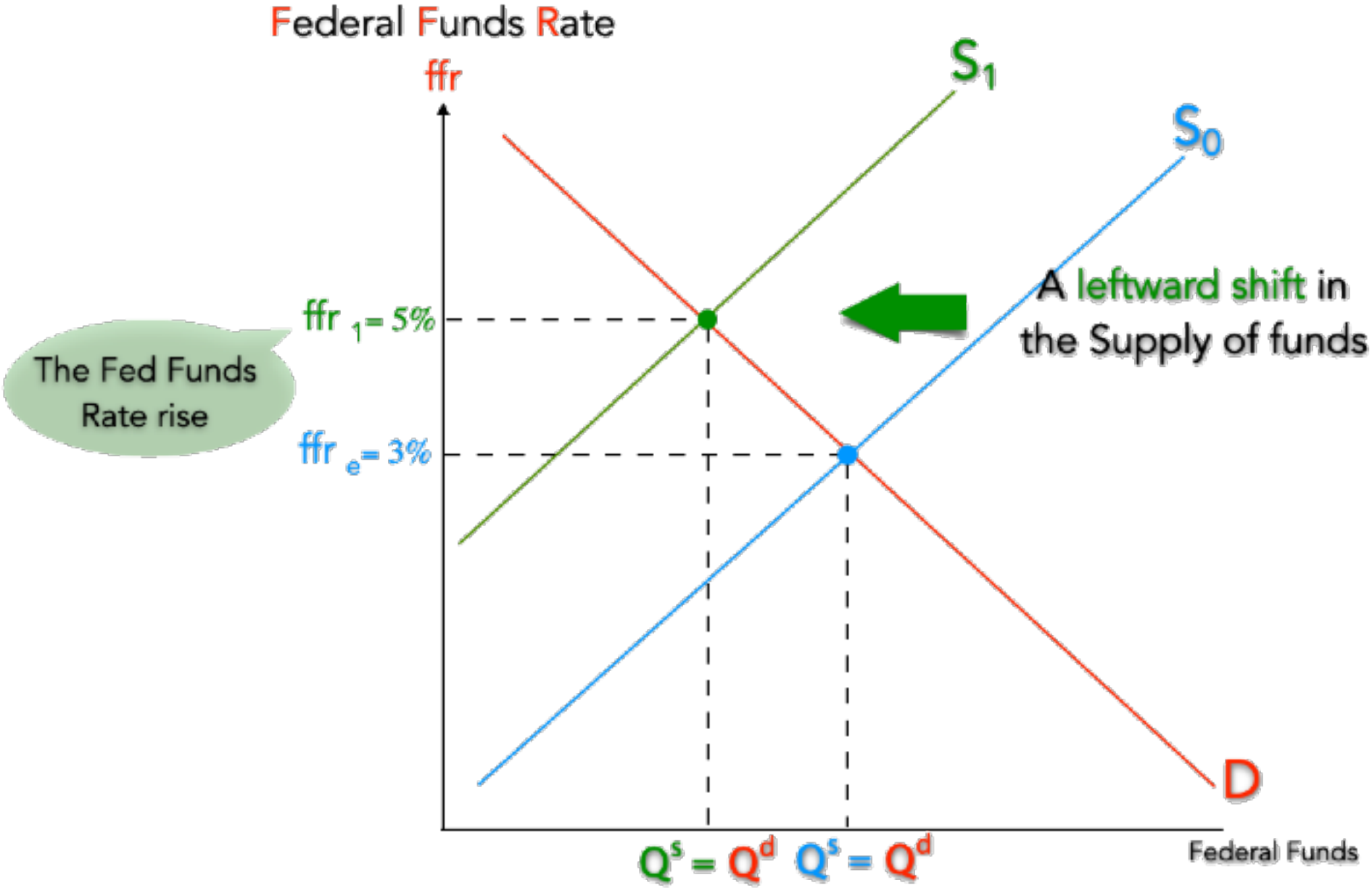
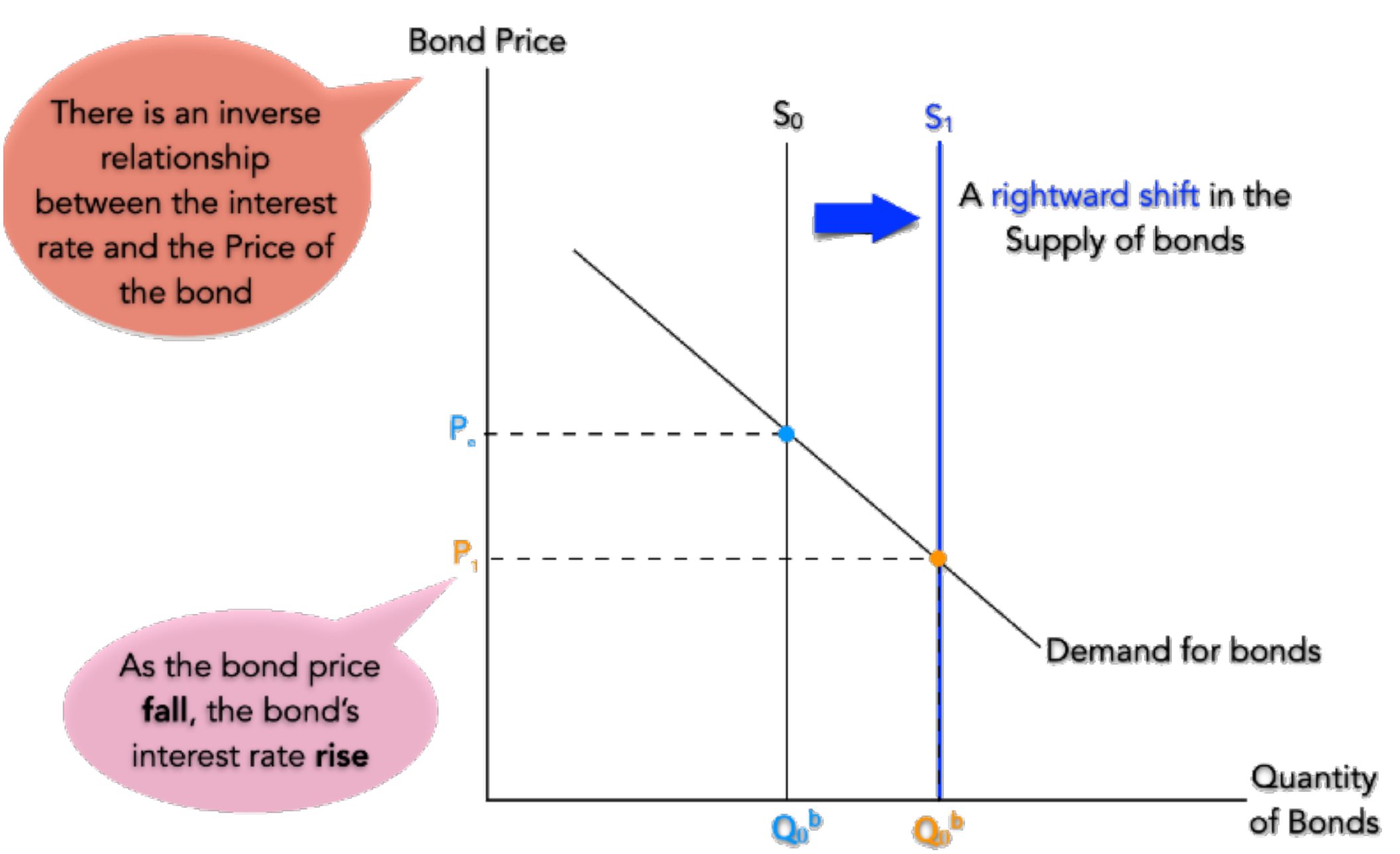

i
M_1^s
M_0^s
$i_0 = 6\%$
$i_1 = 3\%$
M^s shifts left
Interest rate to the public increase
The Fed disappears reserves making money scarce
$M^d(P_0, GDP_0)$
$M^s = 300b$
$M_0^s = 900b$
Currency+ Deposits


Federal Funds Rate
ffr
S_1
S_0
A leftward shift in the Supply of funds
$ffr_1 = 5\%$
The Fed Funds Rate rise
$ffr_e = 3\%$
D
$Q^s = Q^d$
$Q^s = Q^d$
Federal Funds


There is an inverse relationship between the interest rate and the Price of the bond
As the bond price **fall**, the bond's interest rate **rise**
Bond Price
S_0
S_1
A rightward shift in the Supply of bonds
P_0
P_1
Demand for bonds
Quantity of Bonds
Q_0^b
Q_0^b

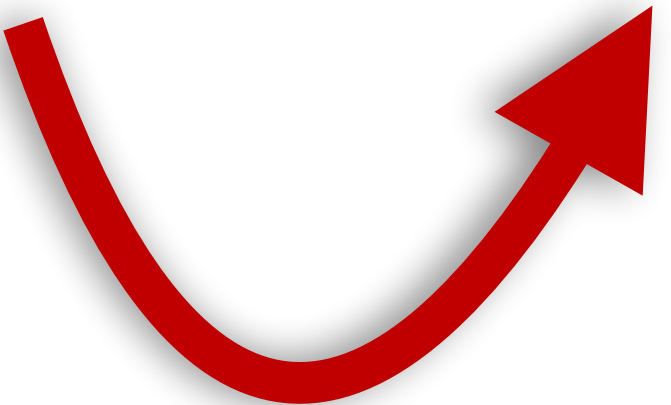
Interest rates increase in all three markets

The effect of a Sale of bonds by the Fed

When the Fed sells bonds: Quantitative Tightening (QT)

The Money Market

The Federal Funds Market

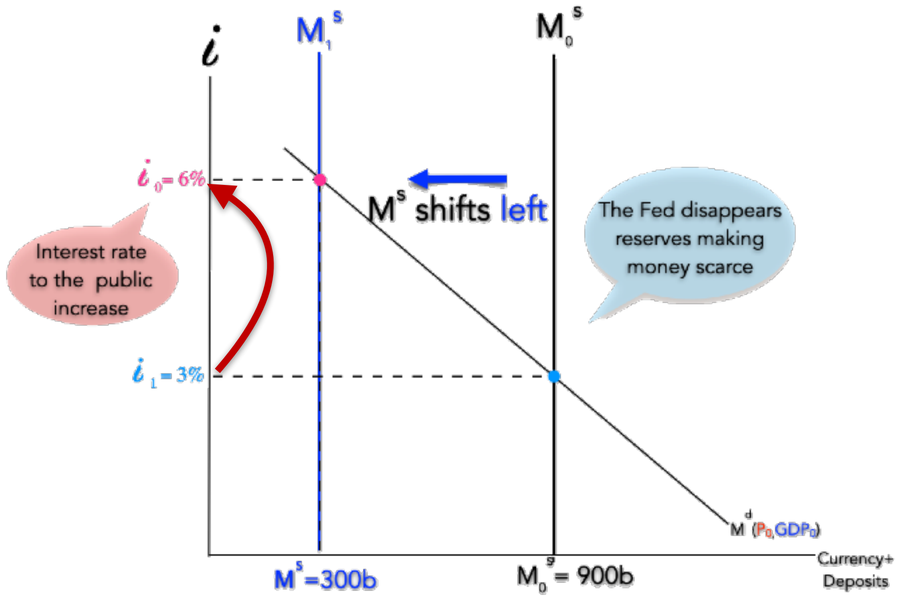


The Bond Market

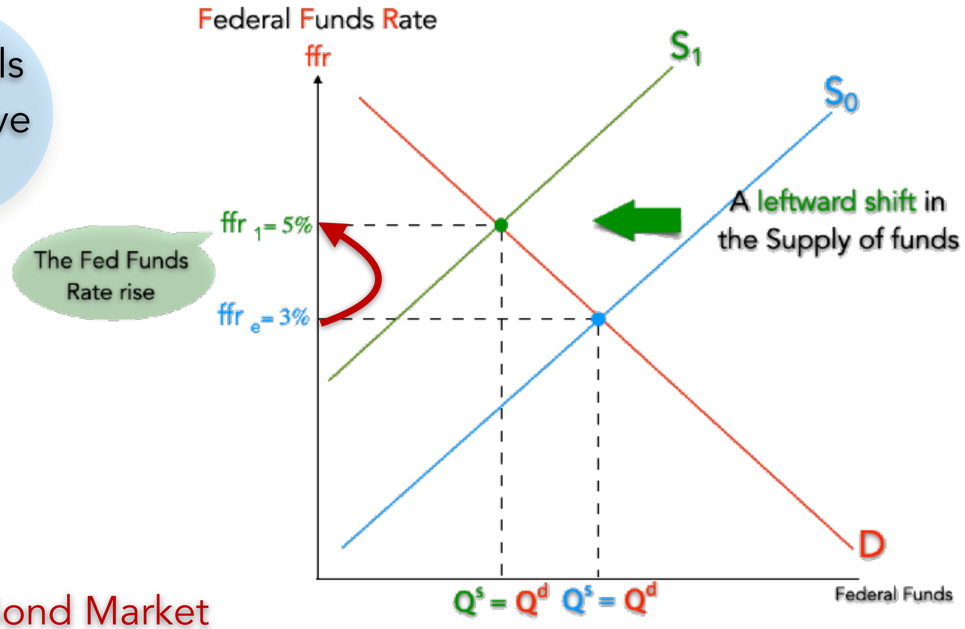
The effect of a Sale of bonds by the Fed

When the Fed sells bonds: Quantitative Tightening (QT)

The Money Market

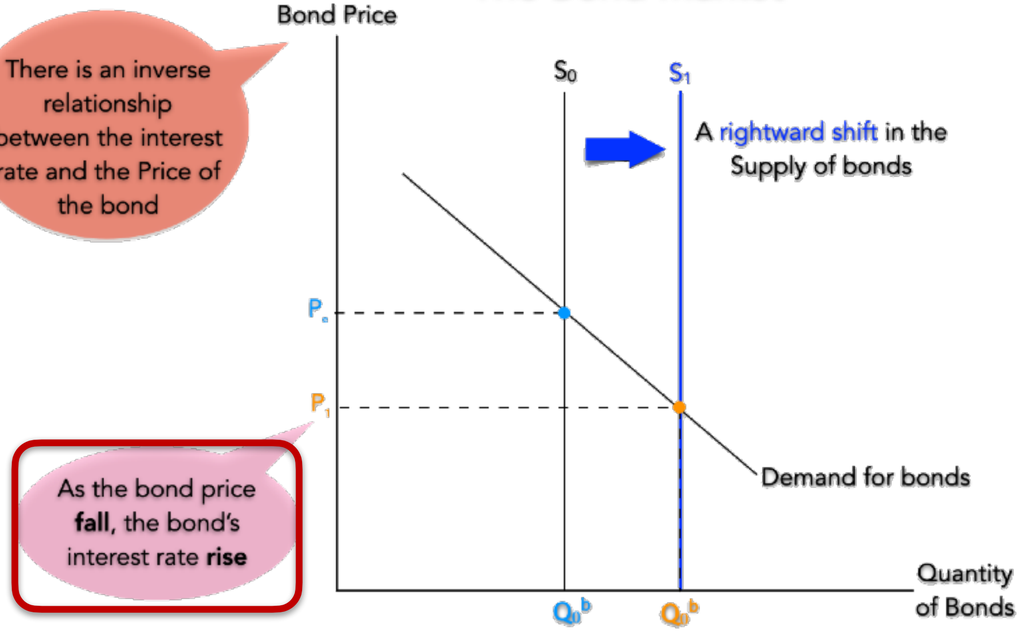


The Federal Funds Market

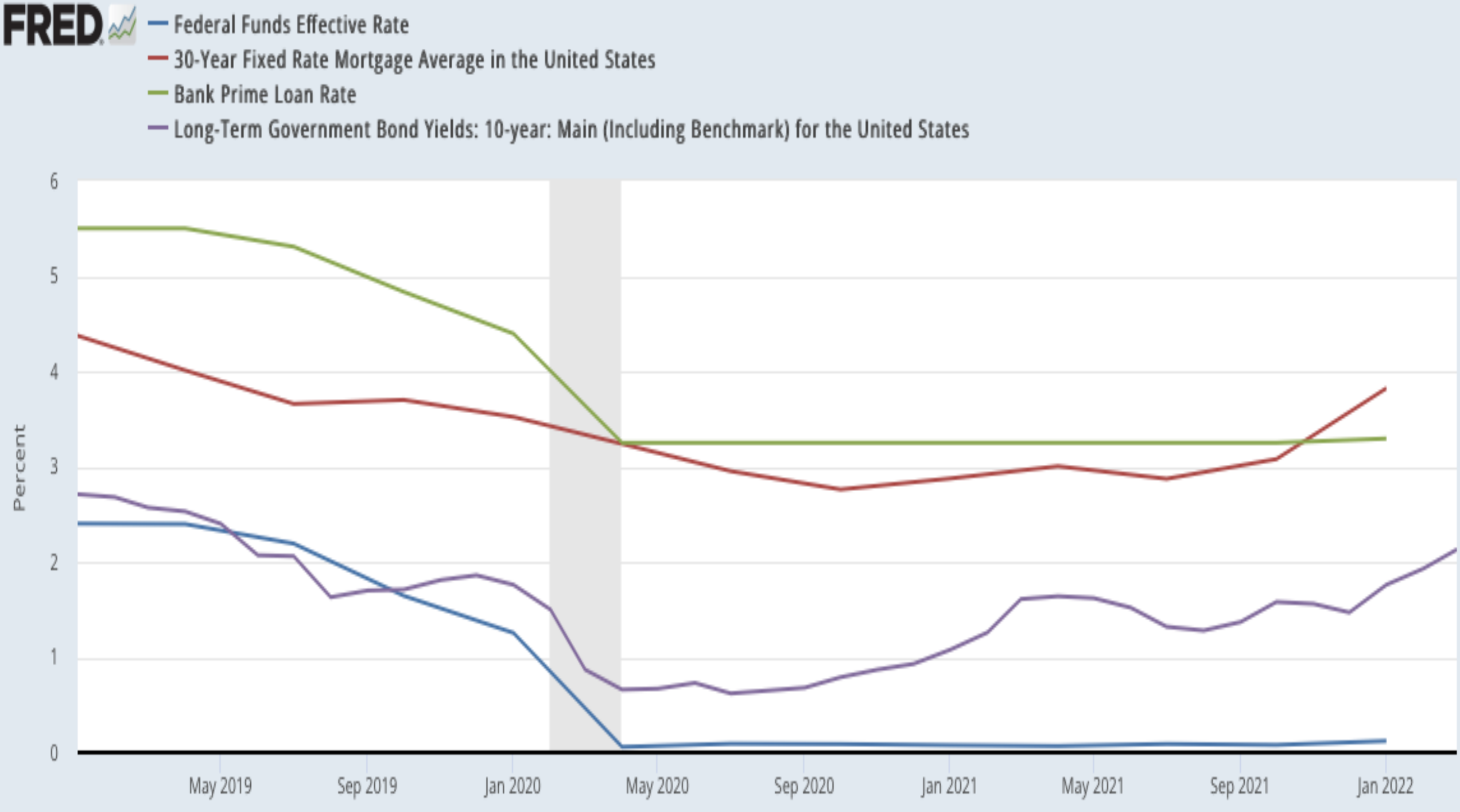


The Bond Market

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



Interest rates increase in all three markets


FRED
Federal Funds Effective Rate
30-Year Fixed Rate Mortgage Average in the United States
Bank Prime Loan Rate
Long-Term Government Bond Yields: 10-year: Main (Including Benchmark) for the United States
Percent
6
5
4
3
2
1
0
May 2019
Sep 2019
Jan 2020
May 2020
Sep 2020
Jan 2021
May 2021
Sep 2021
Jan 2022