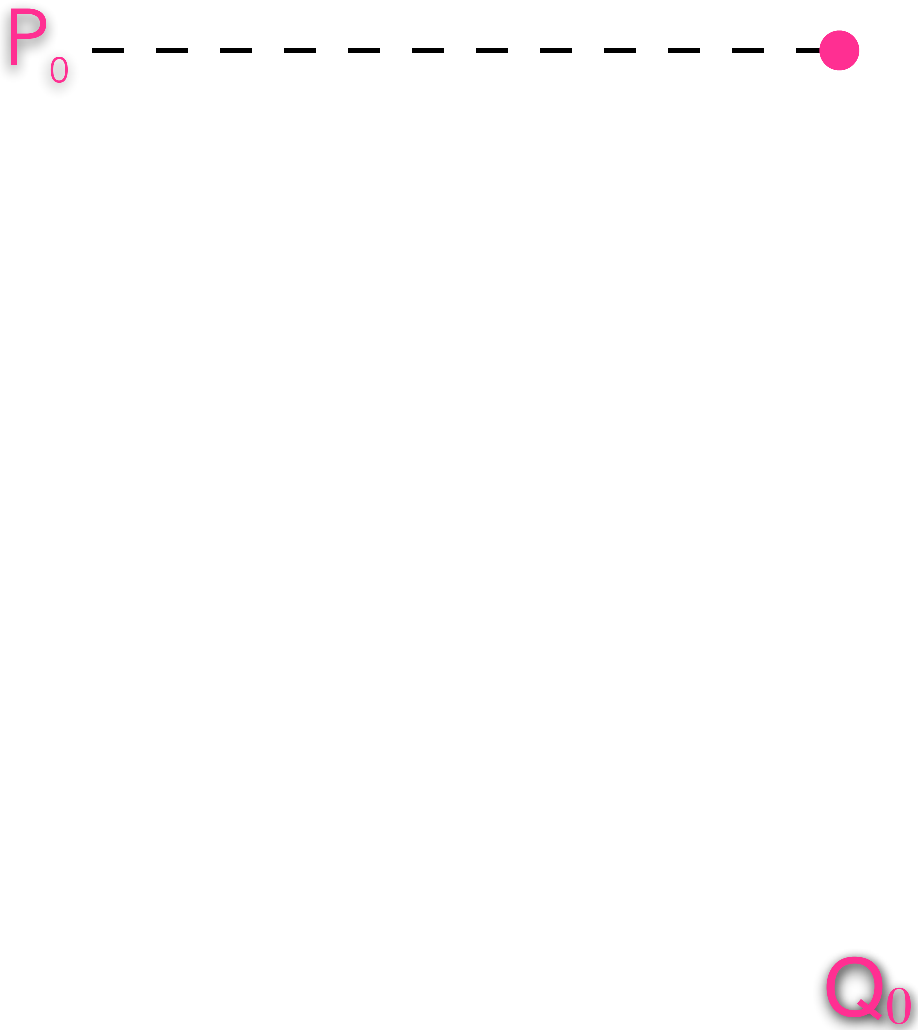
Demand for bonds

The Demand for bonds comes from anyone and everyone who wants to purchase bonds

The Bond Market


P_0
Q_0

Bond Price

Quantity
of Bonds

P1
Q1

The Supply of bonds comes from the U.S Government as well as those who previously purchased Government bonds

Supply of bonds

Fixed Quantity Supplied of Bonds

Why does the yield curve get inverted?

There is an inverse relationship between the Yield and the Price of the bond

Assume the market for Long Term Bonds starts at equilibrium at P_0

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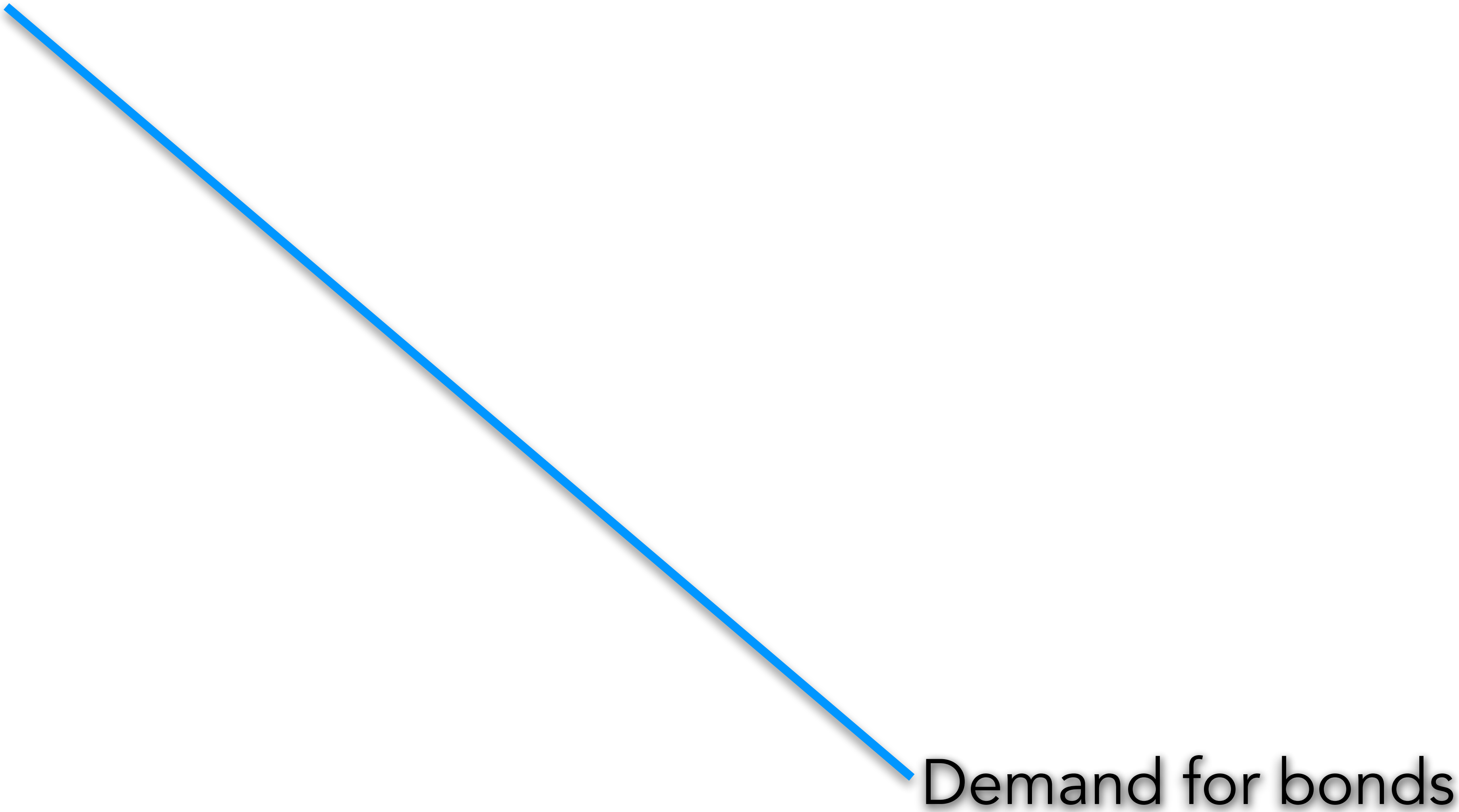
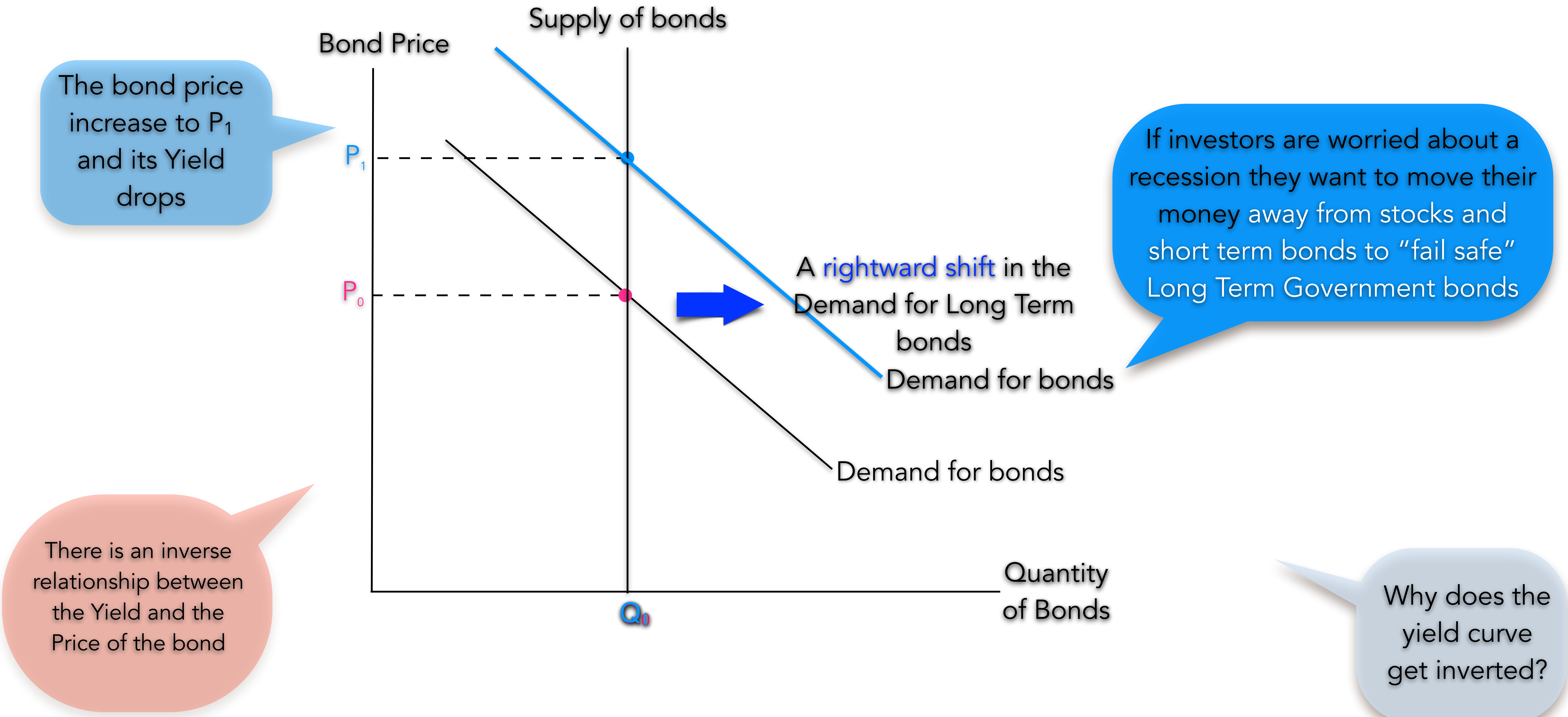
If investors are worried about a recession they want to move their money away from stocks and short term bonds to “fail safe” Long Term Government bonds

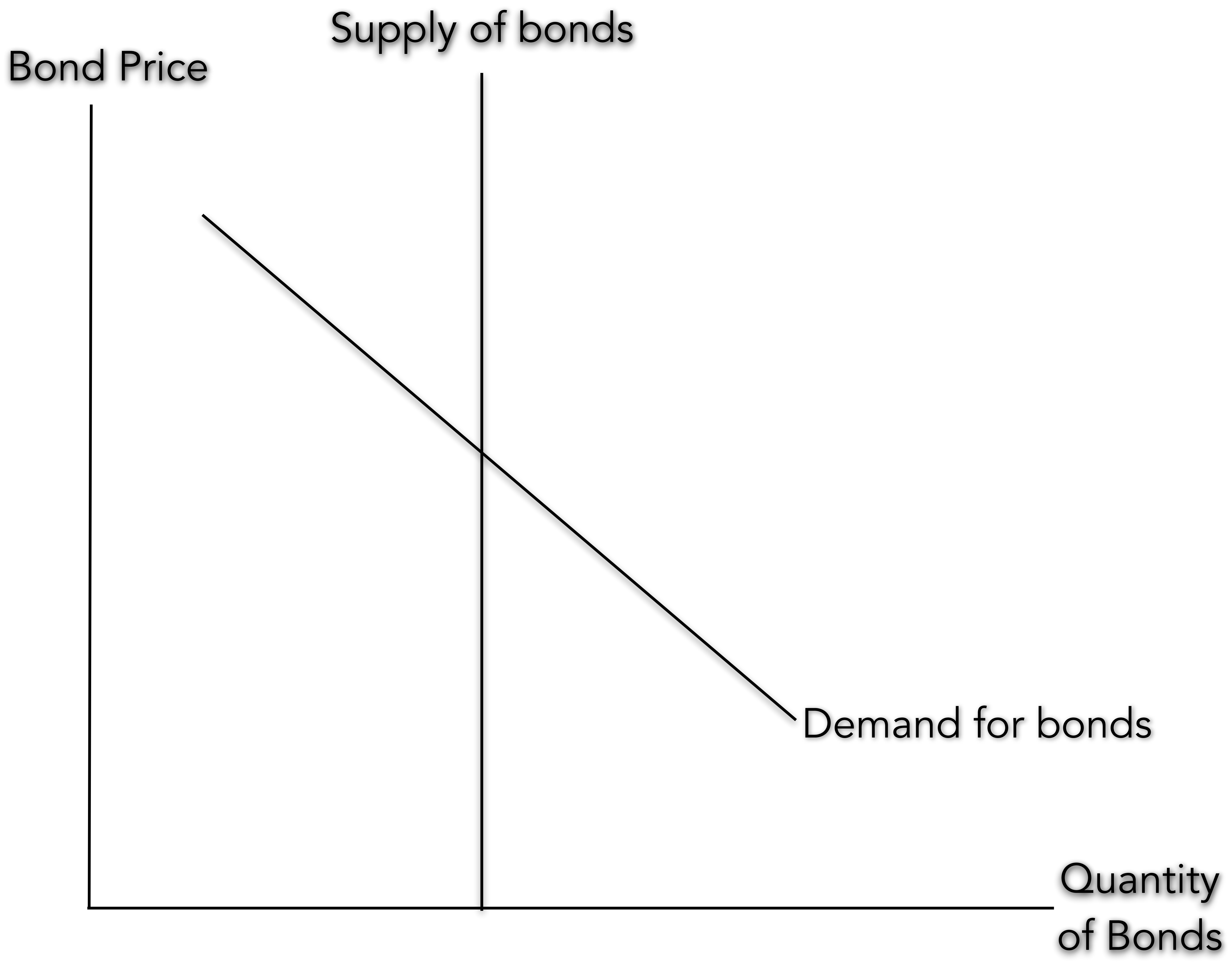

Demand for bonds

A rightward shift in the Demand for Long Term bonds

The bond price increase to P_1 and its Yield drops

An inverted yield curve occurs because Yields on Long Term Bonds fall and Yields on Short Term Bonds rise




Supply of bonds
Bond Price
Demand for bonds
Quantity
of Bonds