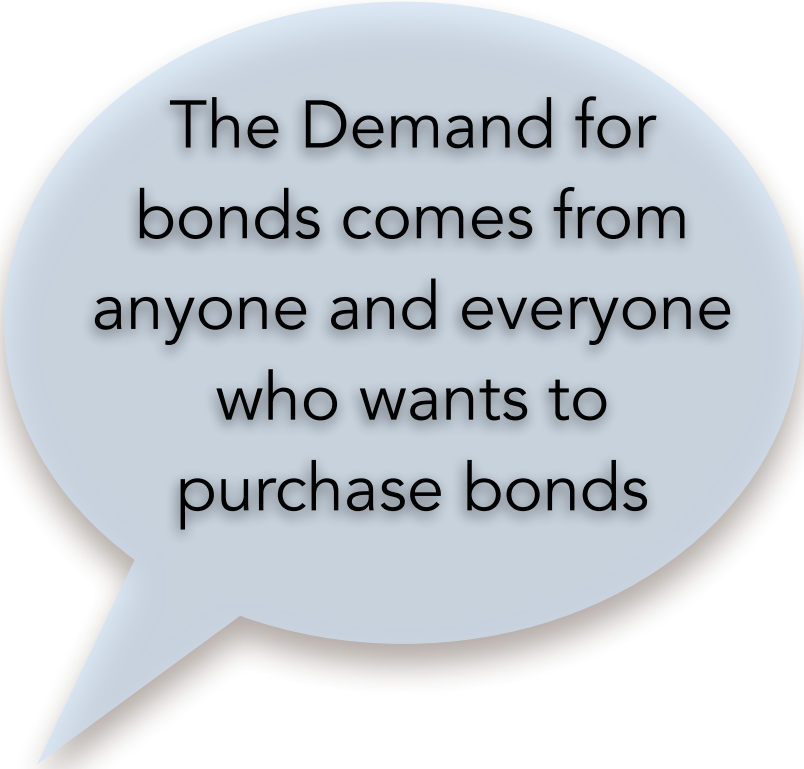


Demand for bonds



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

The Bond Market

P_0 ————— ●

Q_0

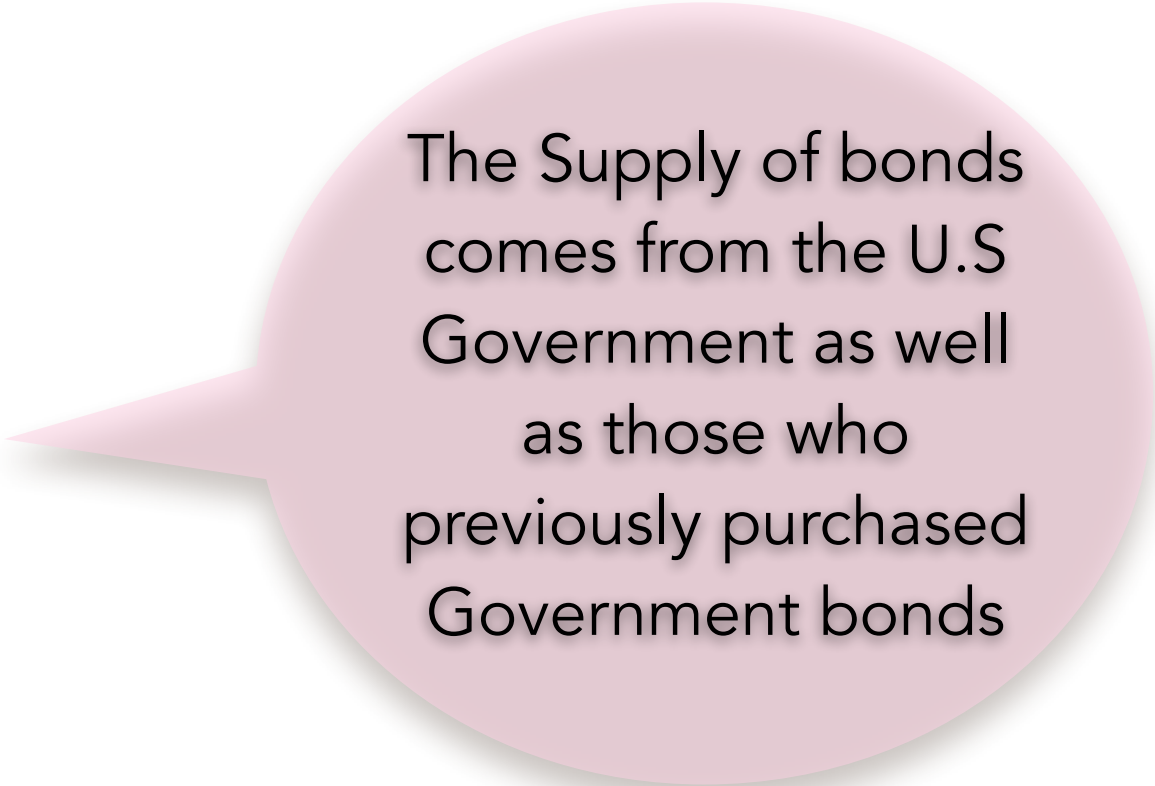
Bond Price



Quantity
of Bonds

P_1 ————— ●

Q_1

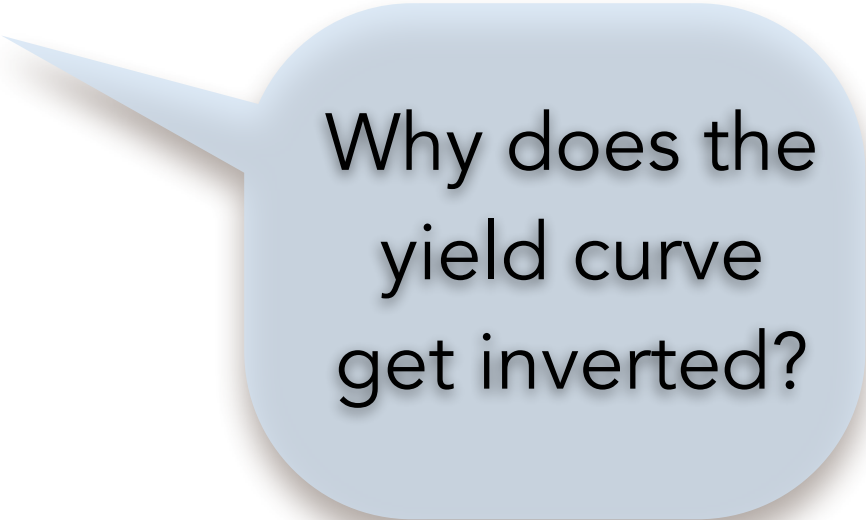


The Supply of bonds
comes from the U.S
Government as well
as those who
previously purchased
Government bonds

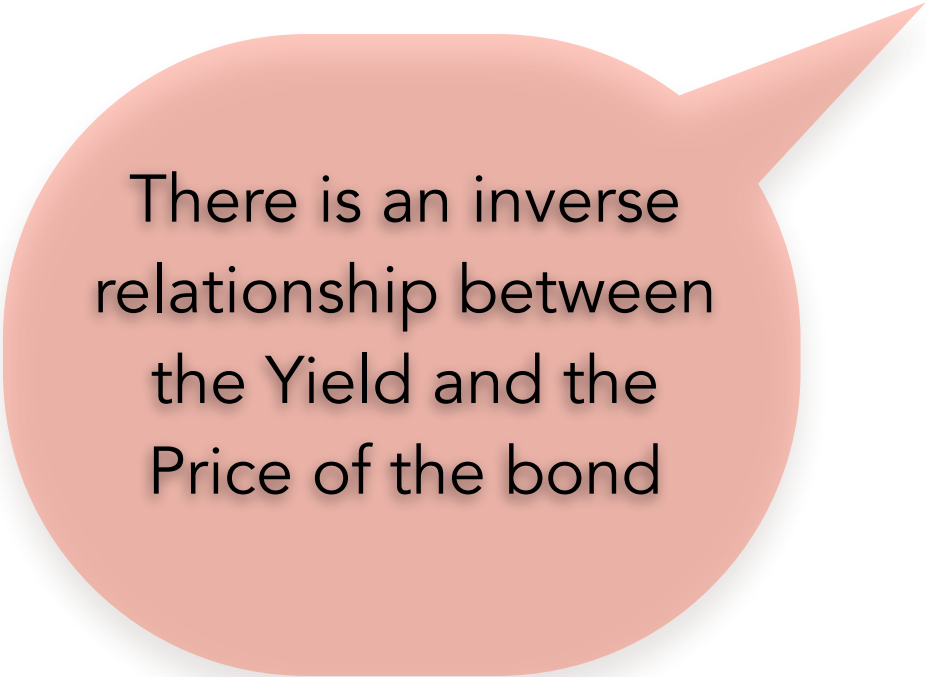
Supply of bonds



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









V











Y











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2















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B








S



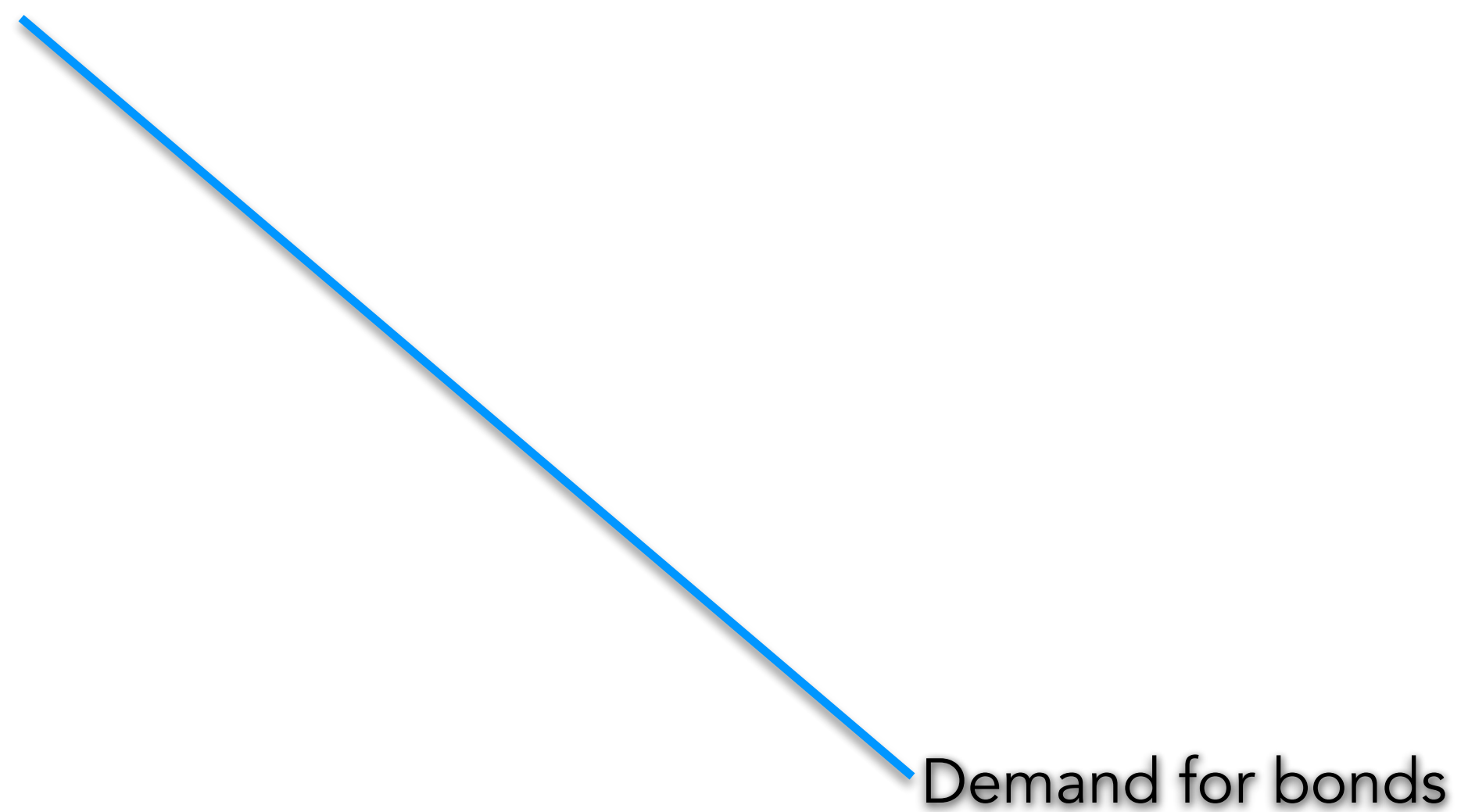


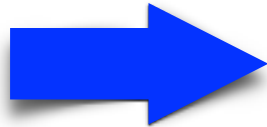
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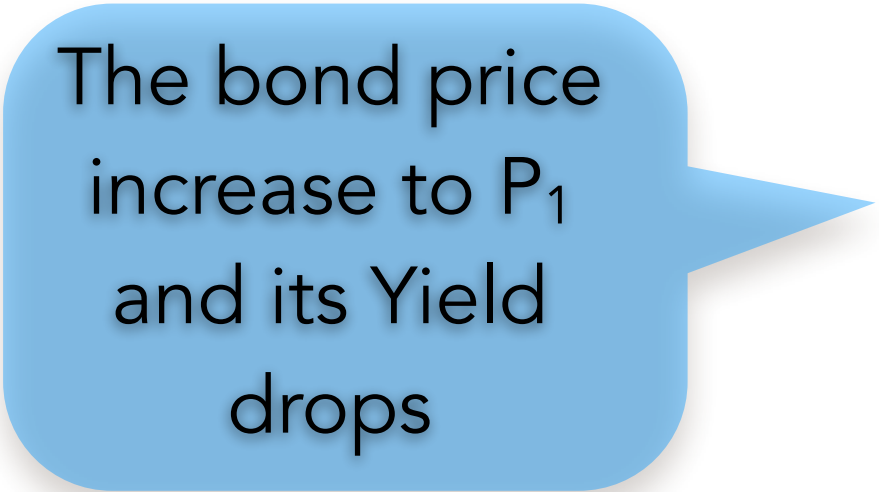


If investors are worried about a recession they want to move their money away from stocks and short term bonds to “fail safe” Long Term Government bonds



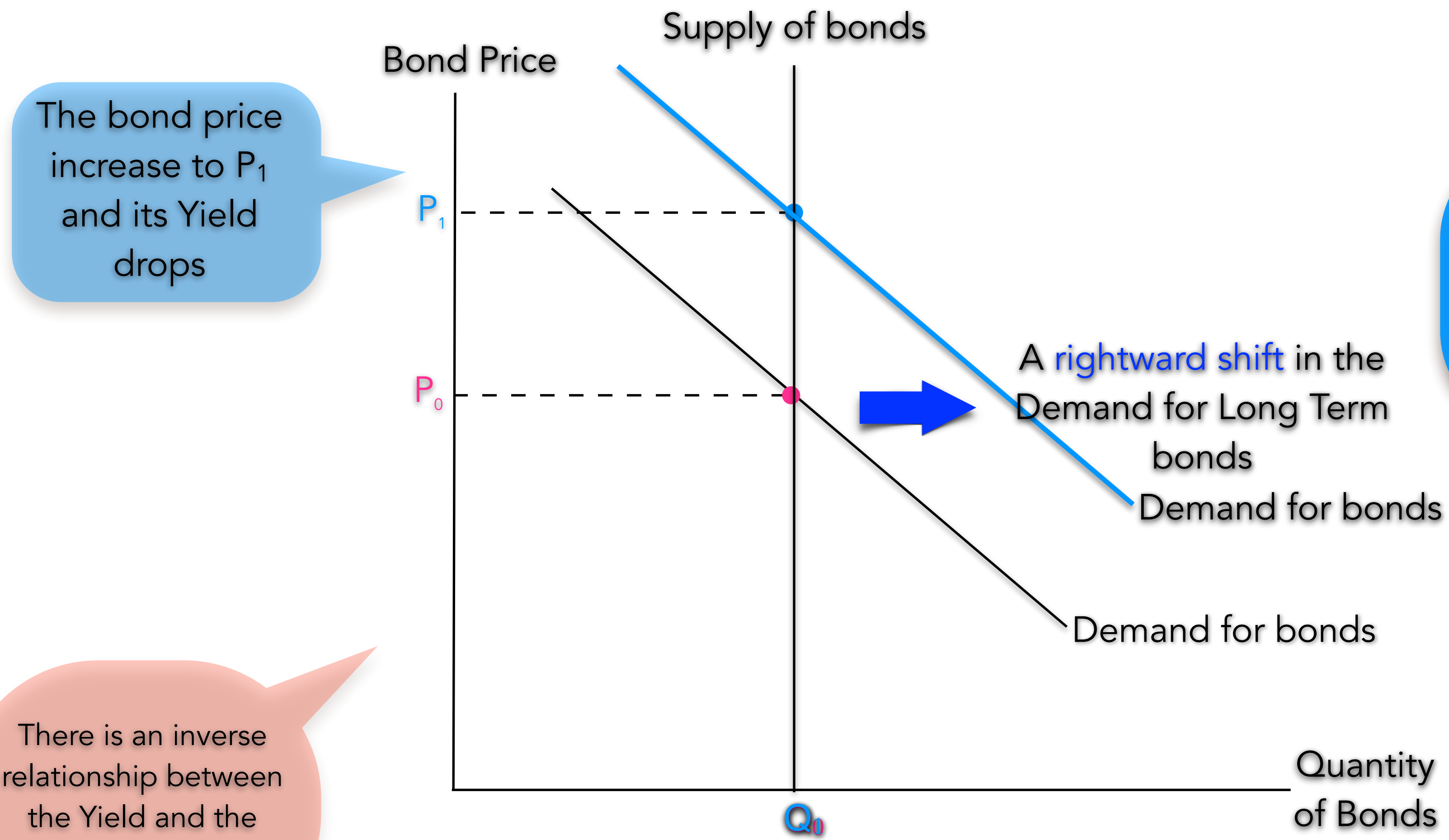


A rightward shift in the
Demand for Long Term
bonds



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**



The bond price increase to P_1 and its Yield drops

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

A rightward shift in the Demand for Long Term bonds

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

Why does the yield curve get inverted?

