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Some banks end with less in reserves than required

Some banks end the day with more reserves than required

# Borrowed Funds

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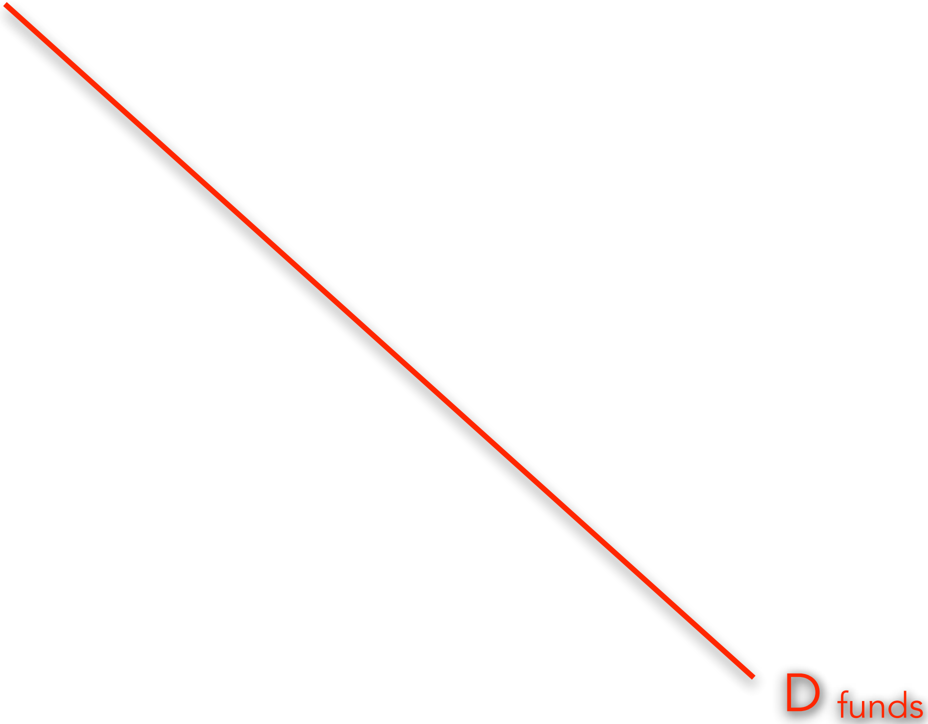
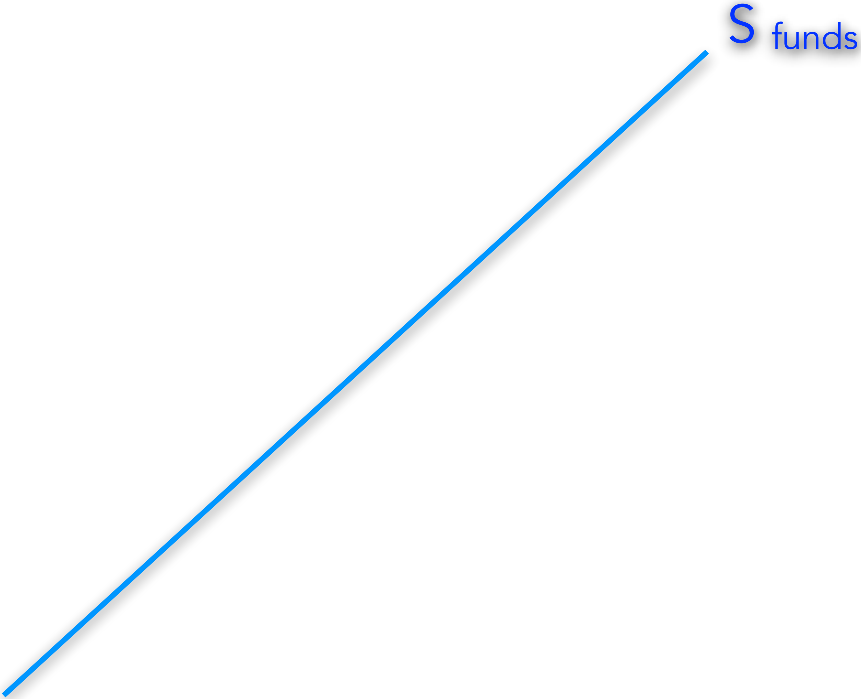

D funds

These banks want a low interest rate

# Loanable Funds

*i*


S funds

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

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

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

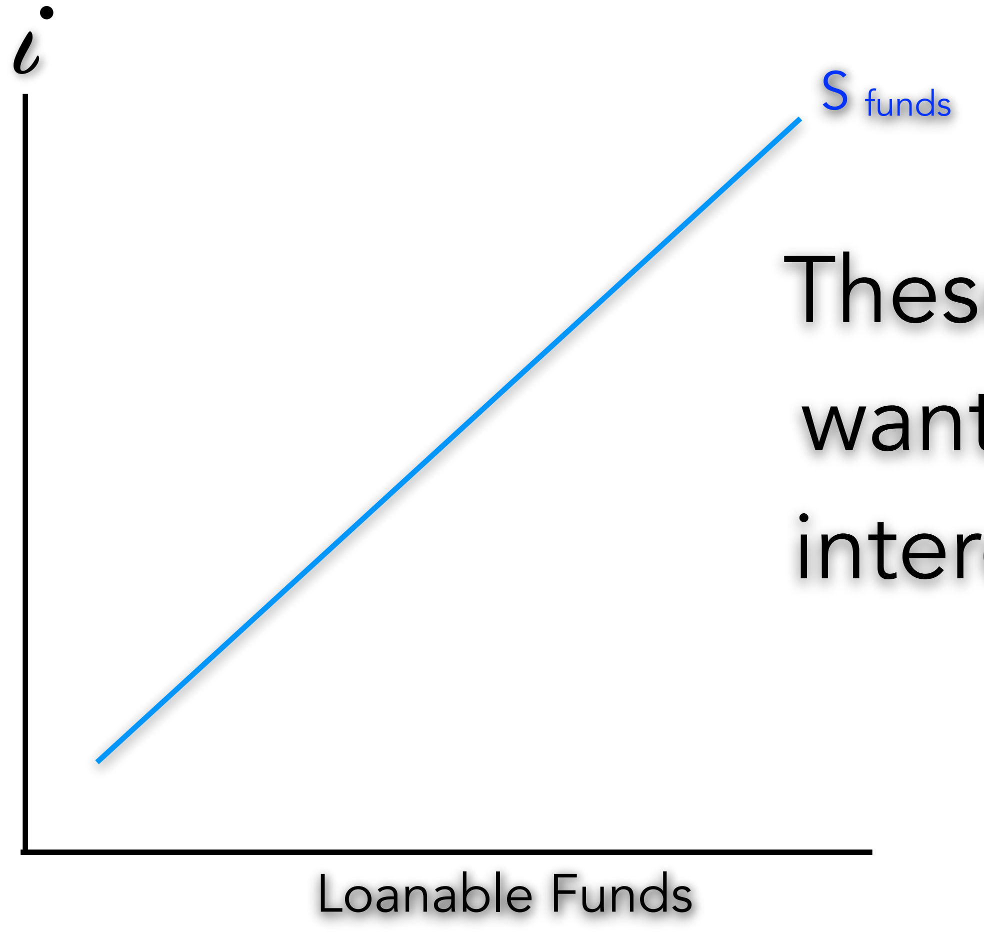
# The Federal Funds Market

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

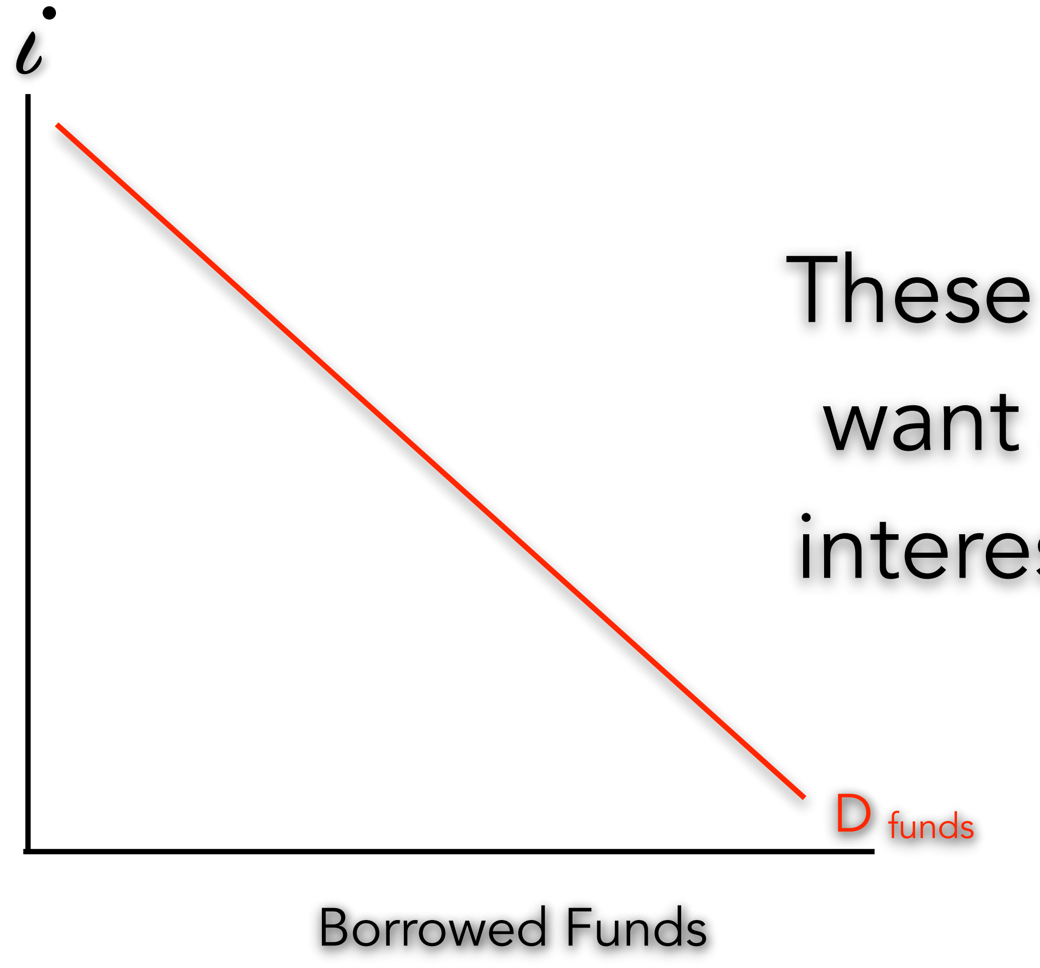



These banks want a high interest rate

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




These banks want a low interest rate

# The Federal Funds Market