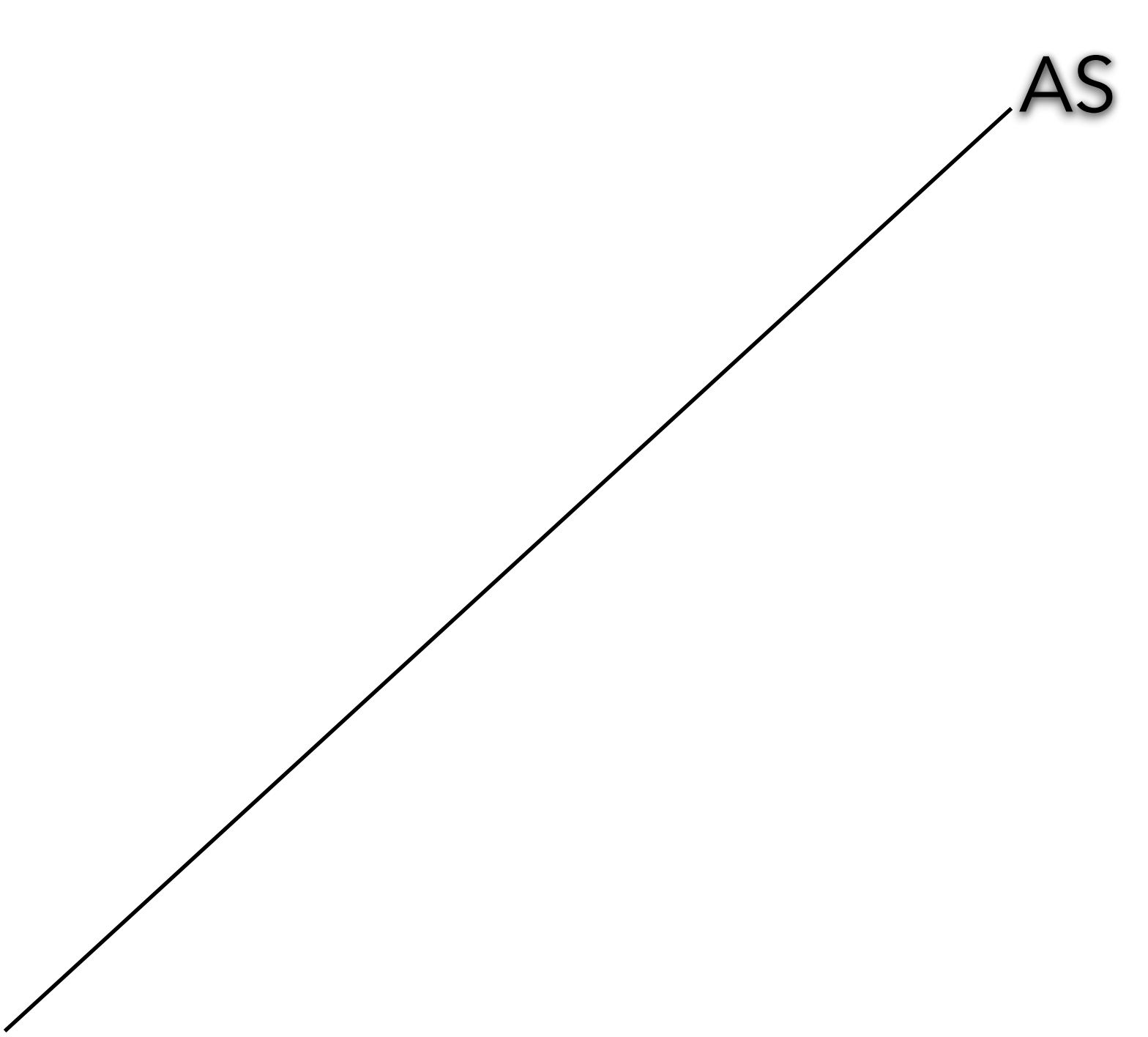
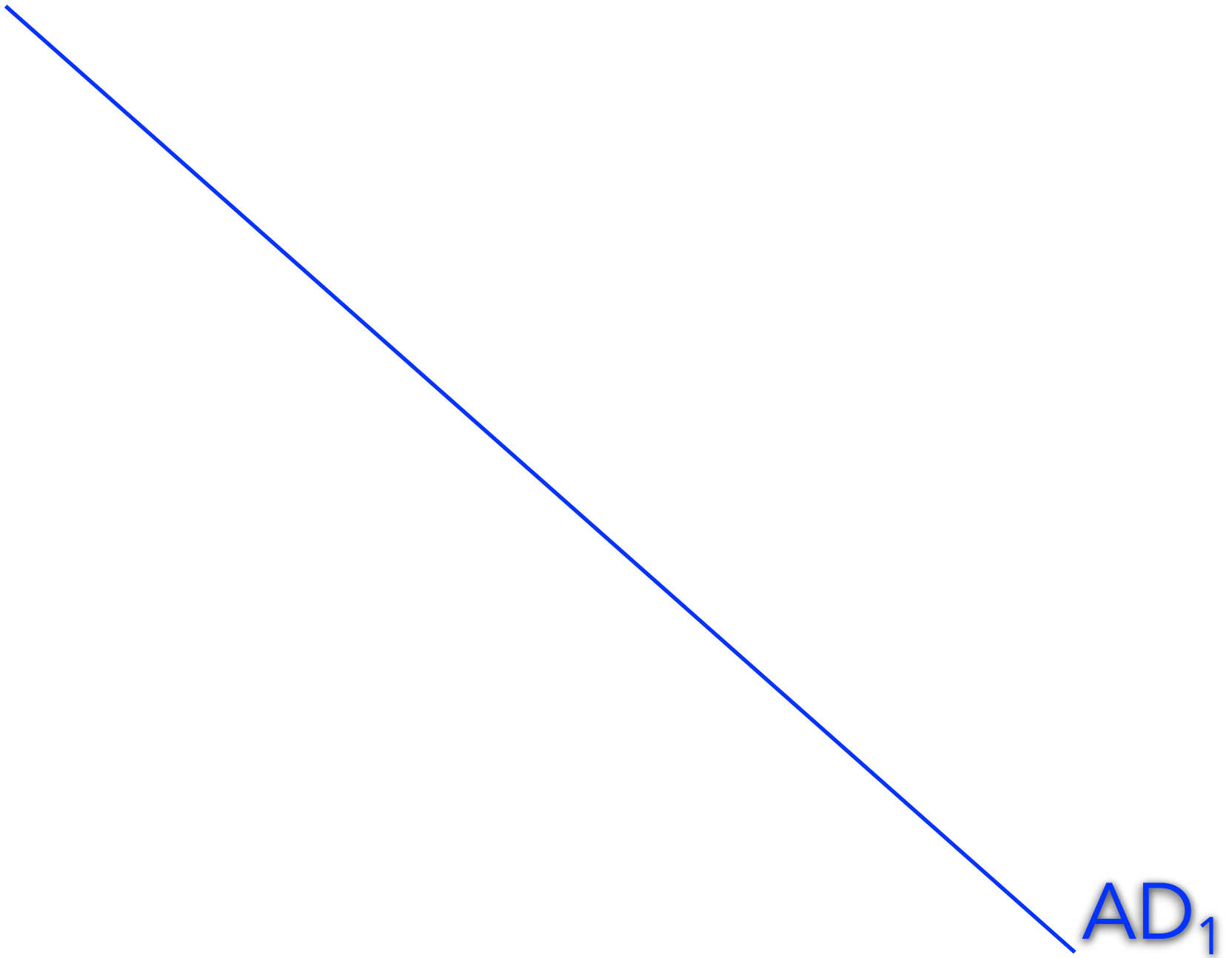


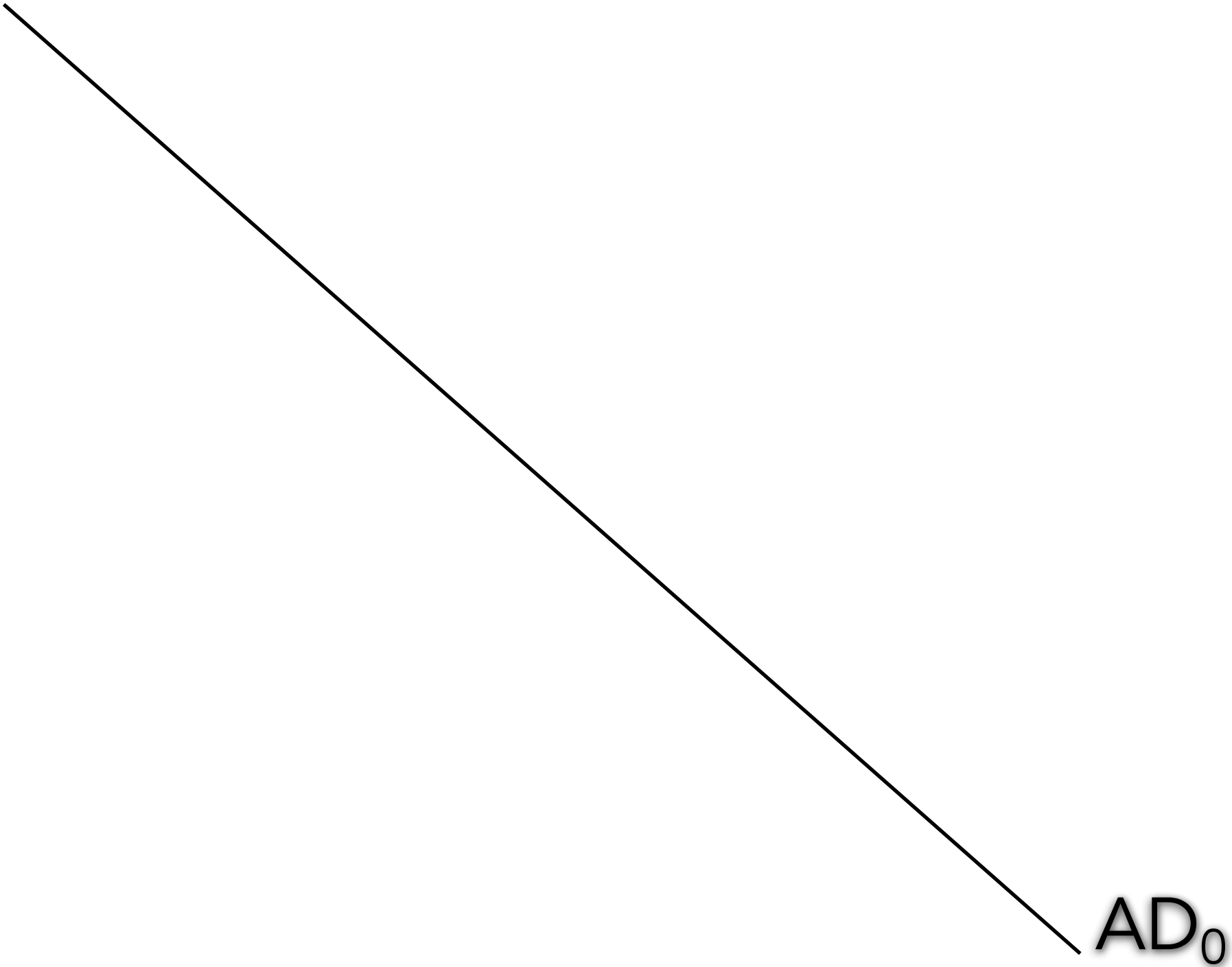


-----

GDP<sub>1</sub>







$P_1$

—

—

—

—

—

—

—

—

—

—



GDP<sub>0</sub>

Price Level  
(CPI)





$P_0$



The effect of a **sale** of bonds by the Fed on  
the Goods and Services Market

---

GDP

Feeds **is** Bonds



Interest rates **increase**



Investment decrease



Aggregate Demand  
decrease

Assume the Goods and  
Services Market starts at  
equilibrium







A **leftward** shift in  
Aggregate Demand

Prices fall

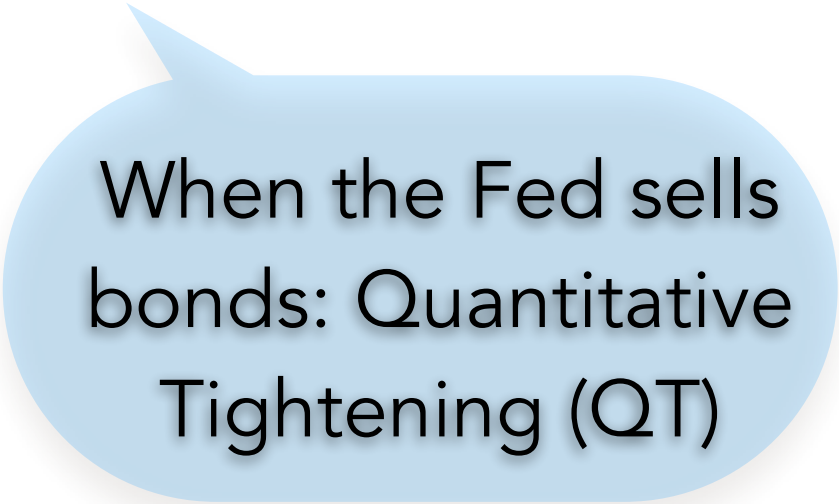




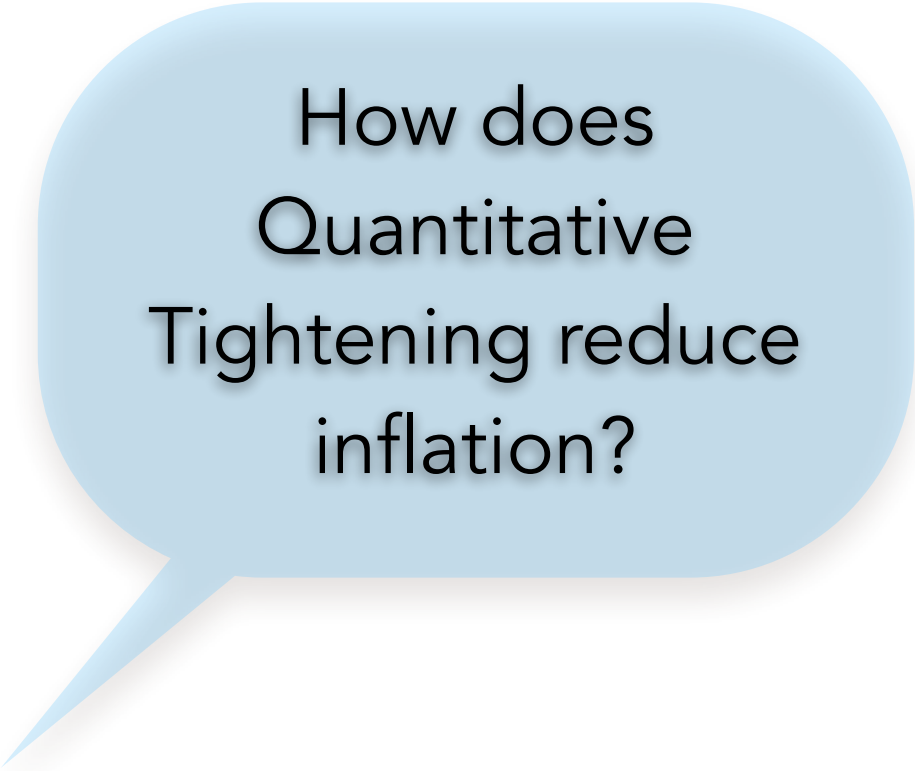
GDP

decrease

Unemployment increase



When the Fed sells  
bonds: Quantitative  
Tightening (QT)



How does  
Quantitative  
Tightening reduce  
inflation?



























2

S

2











**b**







S

**Y**

























U













2

























2

S



U



mm







**Y**







2







S





W



W







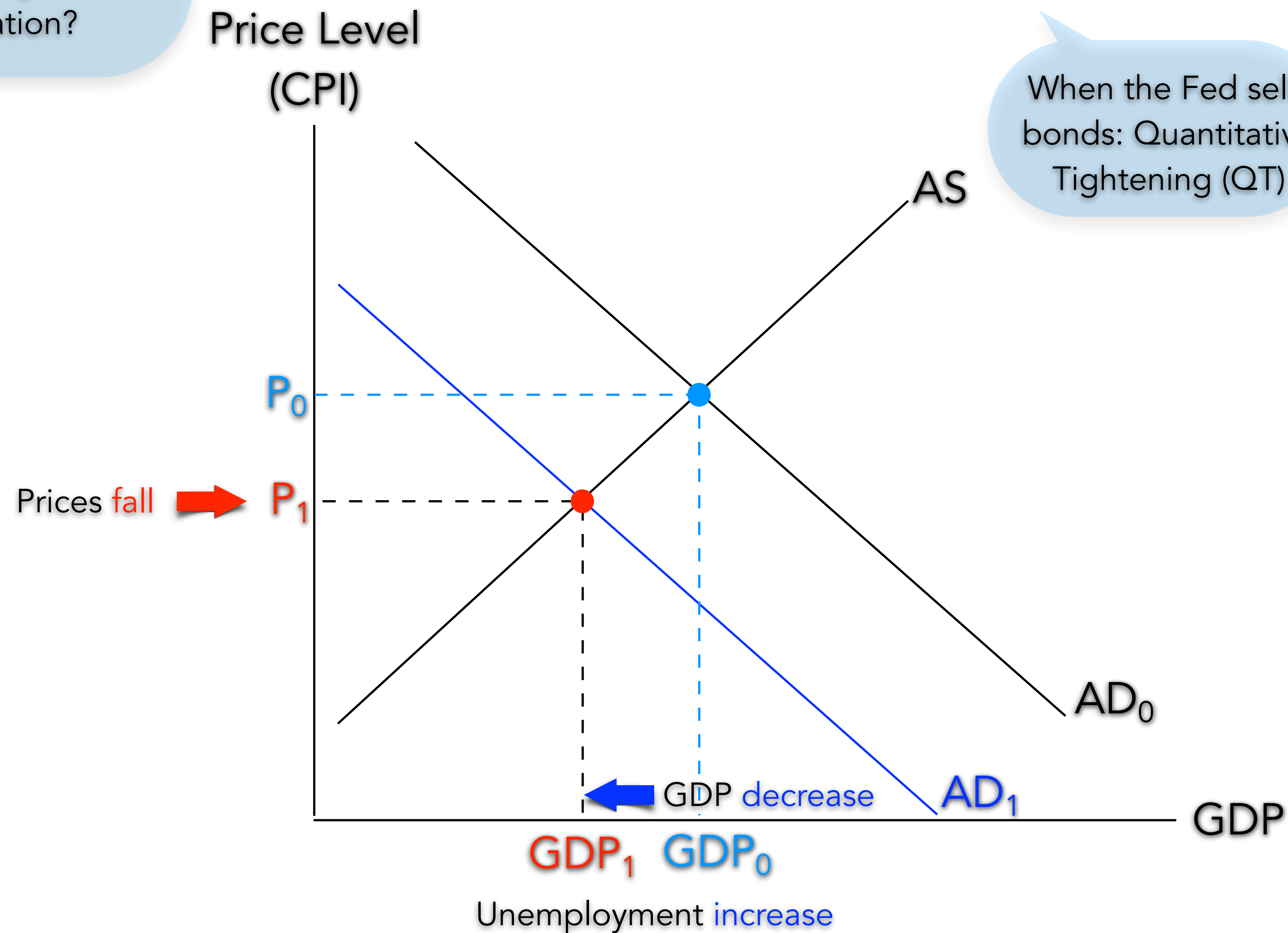




W

How does  
Quantitative  
Tightening reduce  
inflation?

# The effect of a **sale** of bonds by the Fed on the Goods and Services Market



Fed **sells** Bonds



Interest rates **increase**



Investment **decrease**



Aggregate Demand  
**decrease**

The effect of a **sale** of bonds by the Fed: reduce Inflation, increase unemployment and slow down growth

- Private Nonresidential Fixed Investment
- Private Residential Fixed Investment

