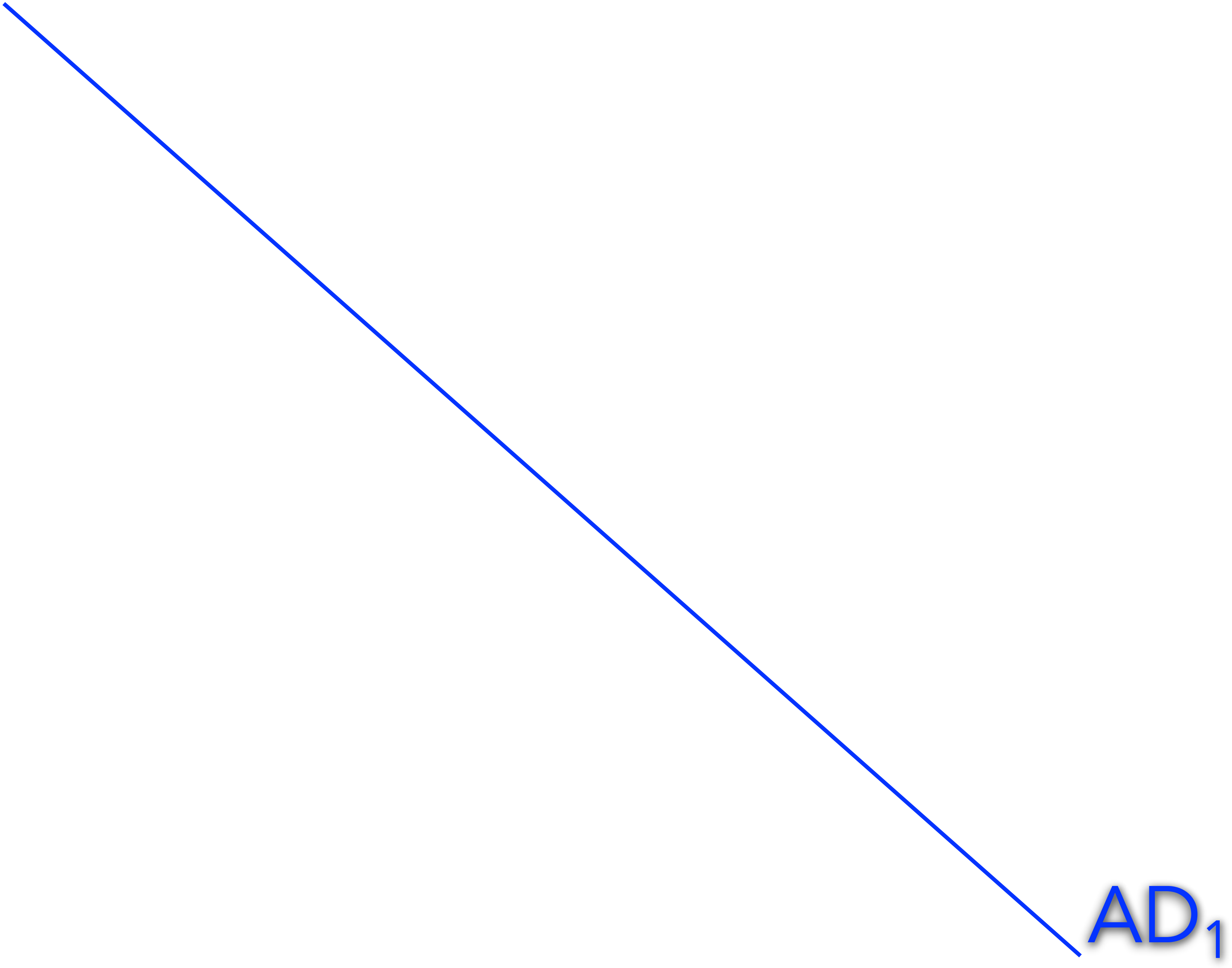
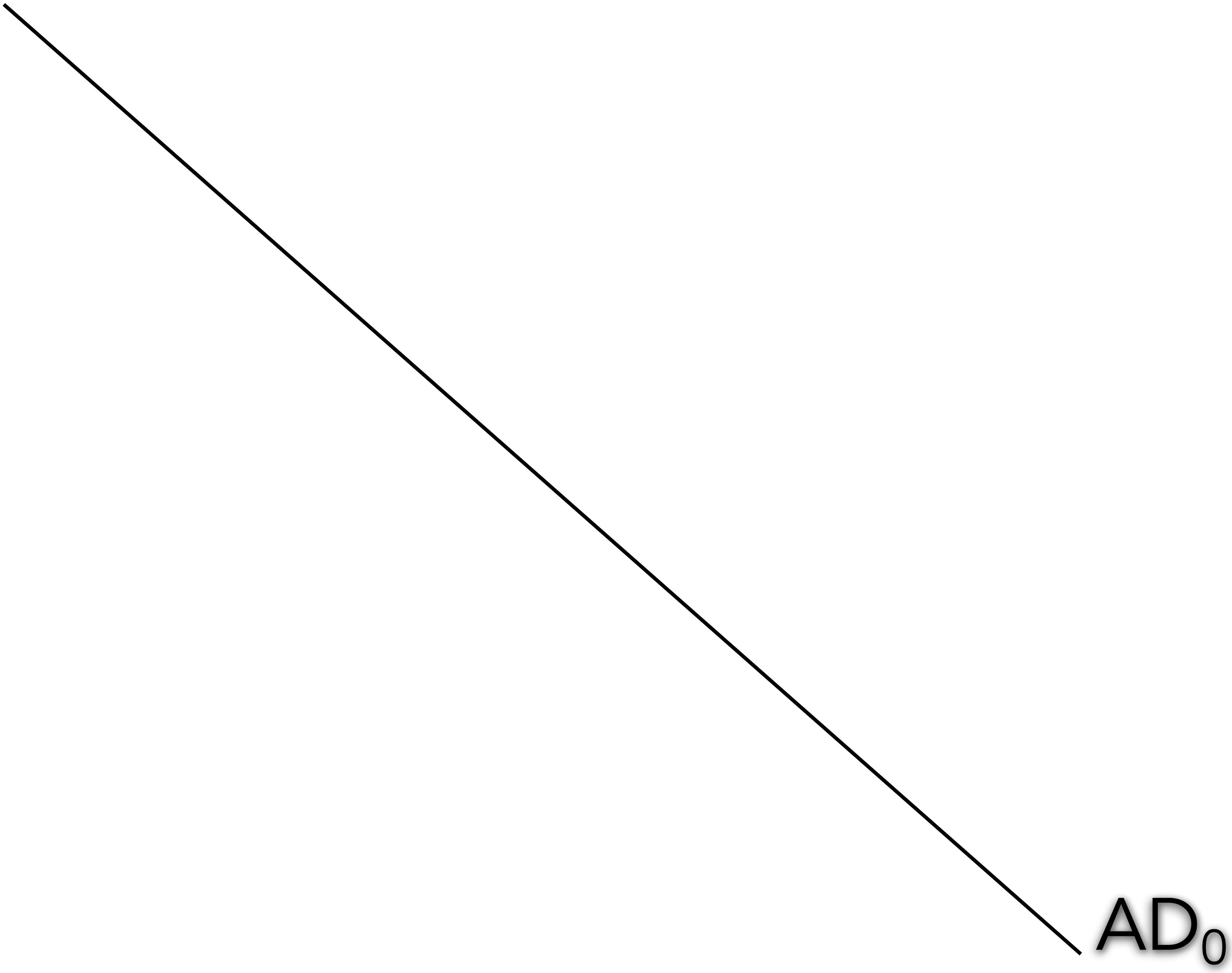
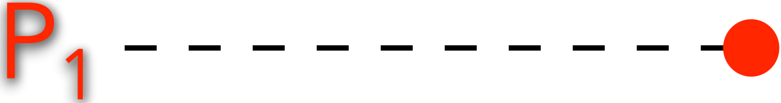
GDP_1

AS


AD_1

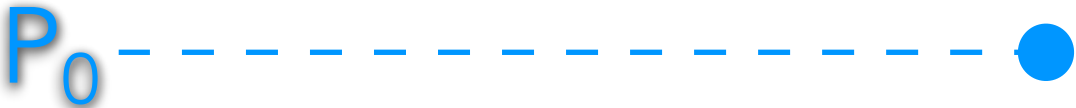

AD_0


P_1

GDP_0

Price Level

(CPI)


P_0

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

GDP

Fed sells Bonds

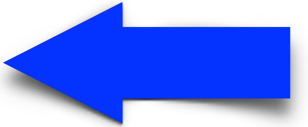
Interest rates increase

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?

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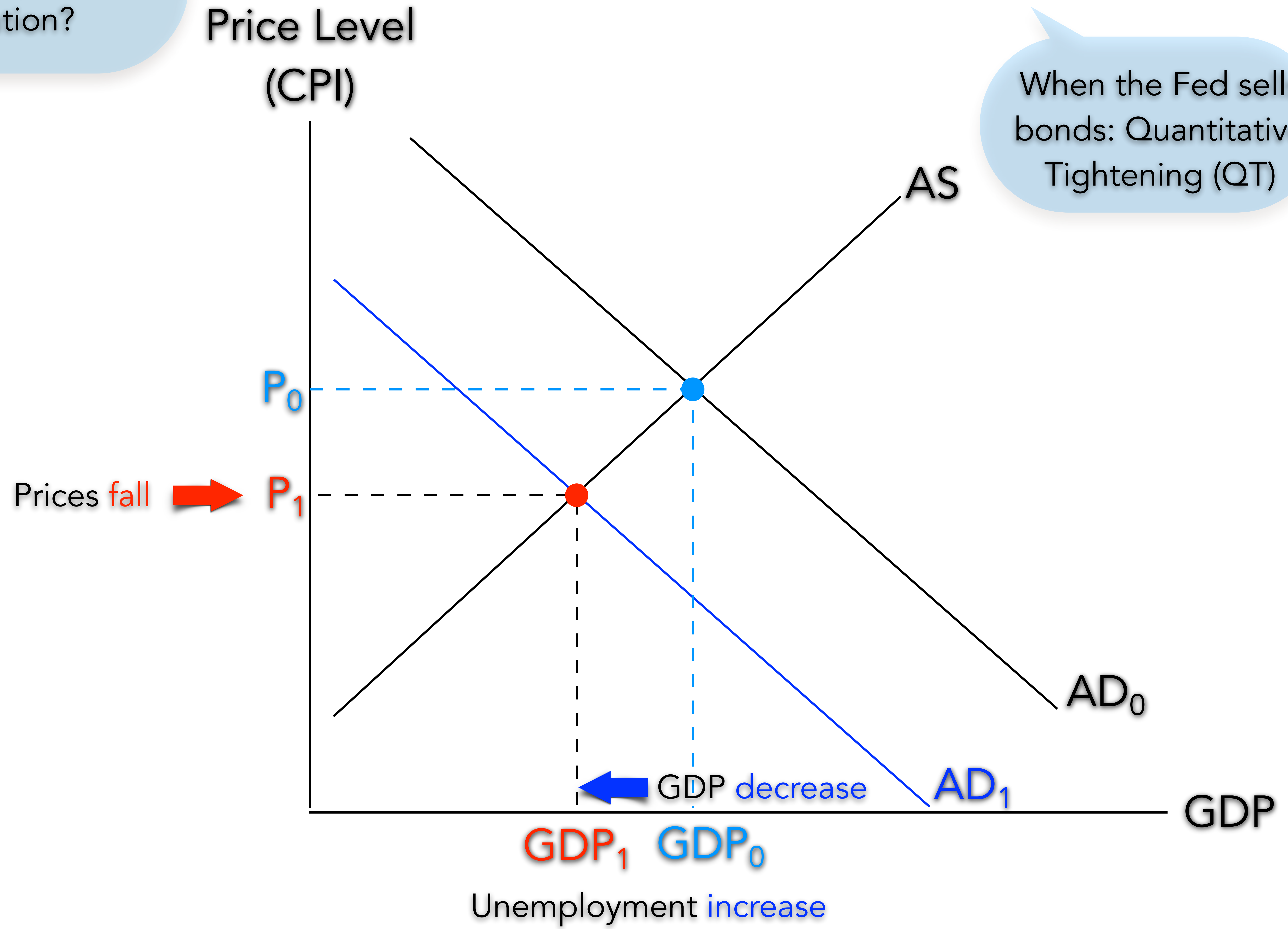
How does Quantitative Tightening reduce inflation?

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



When the Fed sells bonds: Quantitative Tightening (QT)

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


FRED
Federal Funds Effective Rate
30-Year Fixed Rate Mortgage Average in the United States
Bank Prime Loan Rate
Percent
0
1
2
3
4
5
6
7
8
9
2002
2004
2006
2008
2010
2012
2014
2016
2018
2020
2022
2024