

Federal Funds Rate

ffr

S_1

S_0

A leftward shift in the Supply of funds

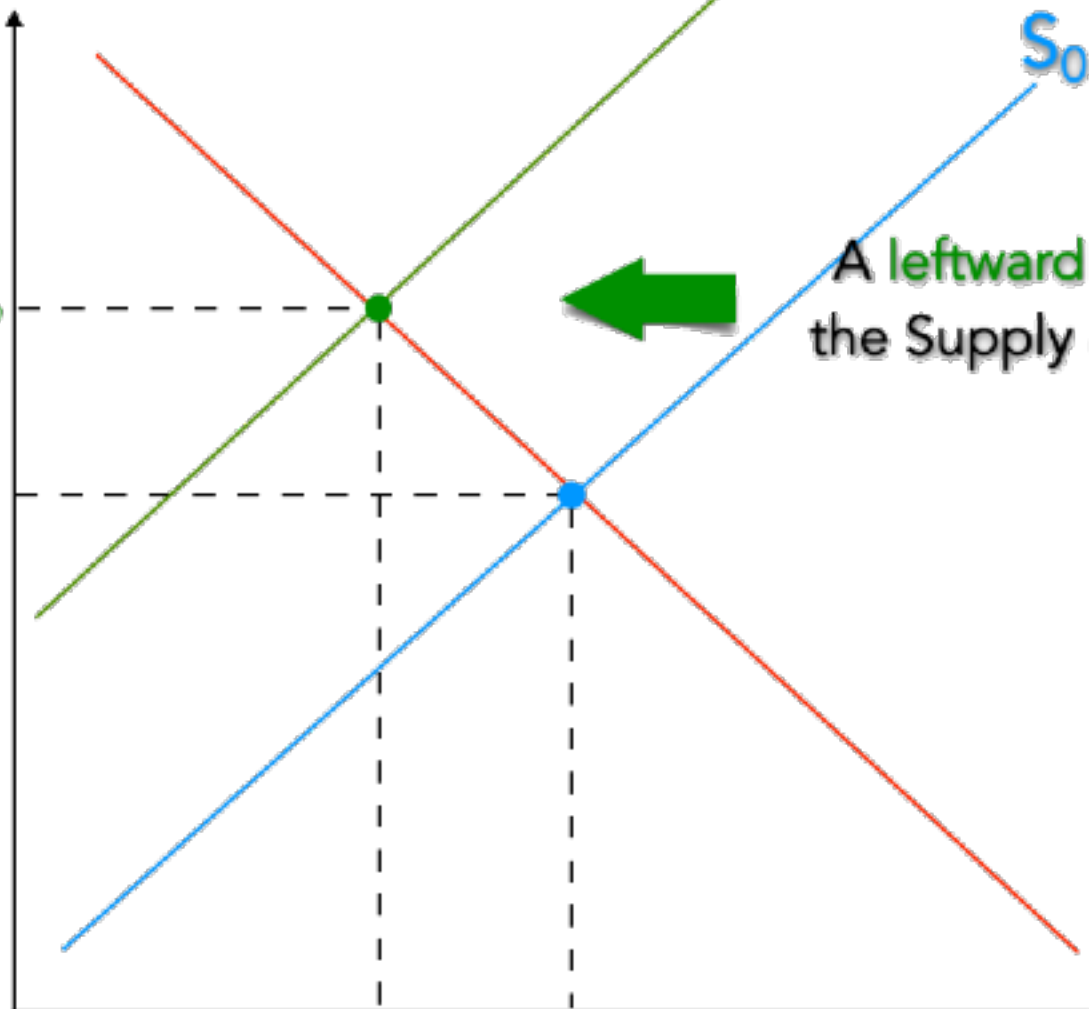
$ffr_1 = 5\%$

$ffr_e = 3\%$

The Fed Funds Rate rise

$Q^s = Q^d$ $Q^s = Q^d$

Federal Funds



Bond Price

There is an inverse relationship between the interest rate and the Price of the bond

S_0

S_1

A rightward shift in the Supply of bonds

P_0

P_1

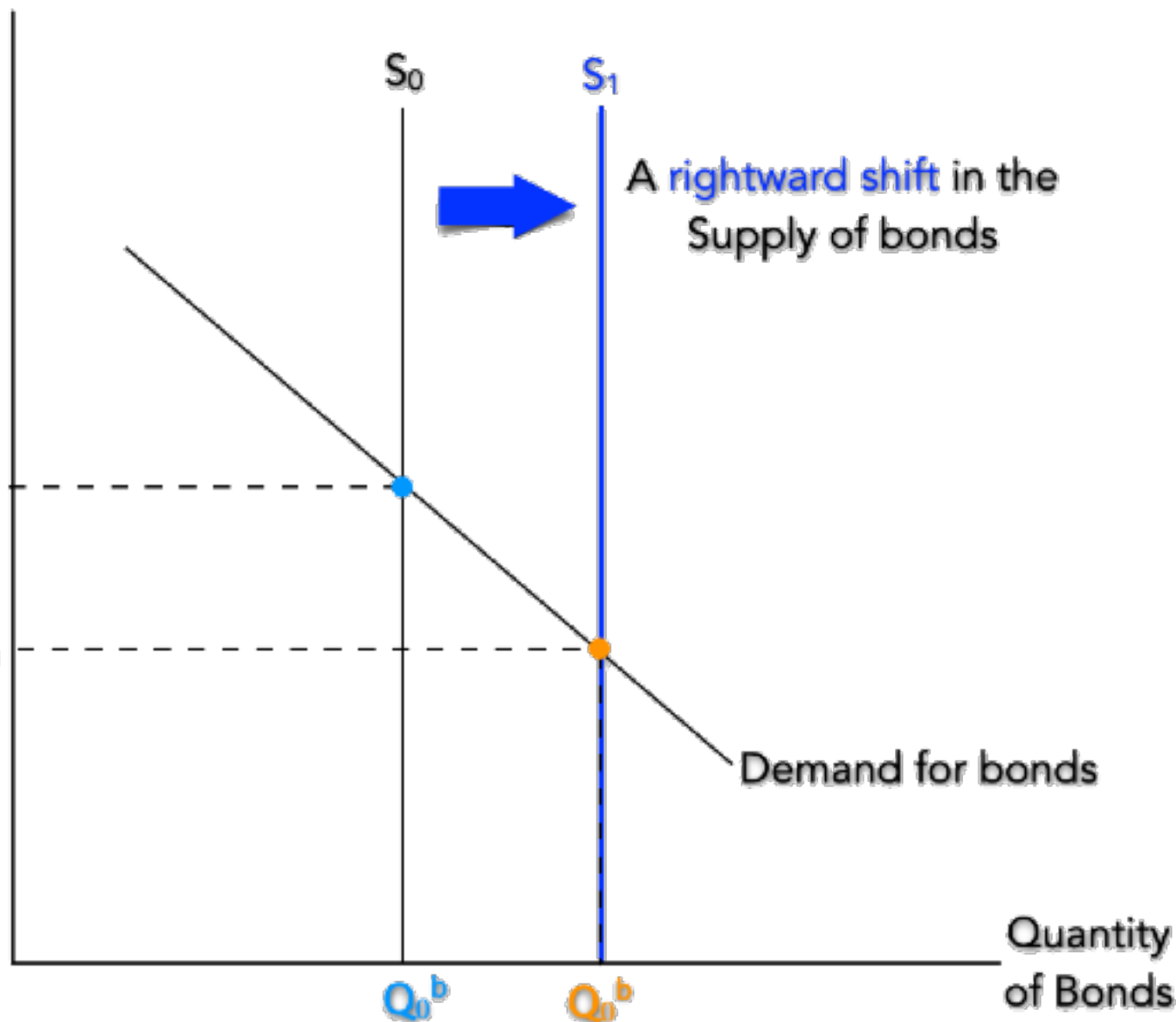
Demand for bonds

As the bond price **fall**, the bond's interest rate **rise**

Q_0^b

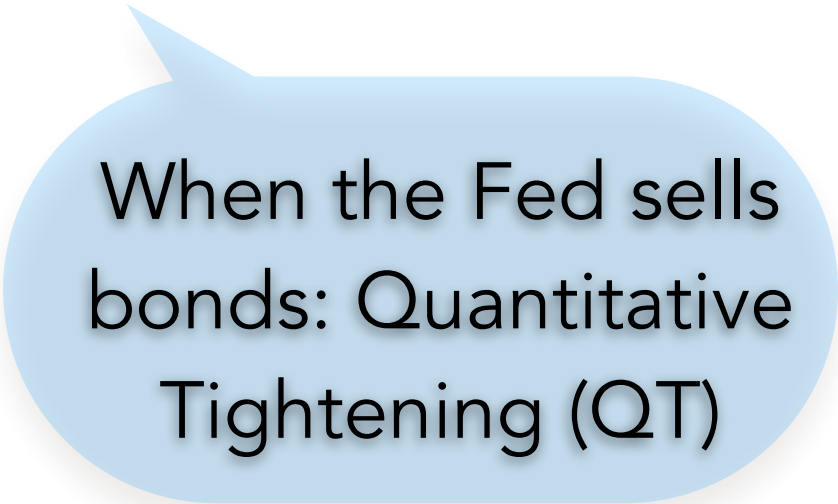
Q_1^b

Quantity of Bonds



Interest rates
increase in all
three markets

The effect of a Sale of bonds by the Fed



When the Fed sells
bonds: Quantitative
Tightening (QT)

The Money Market





The Federal Funds Market

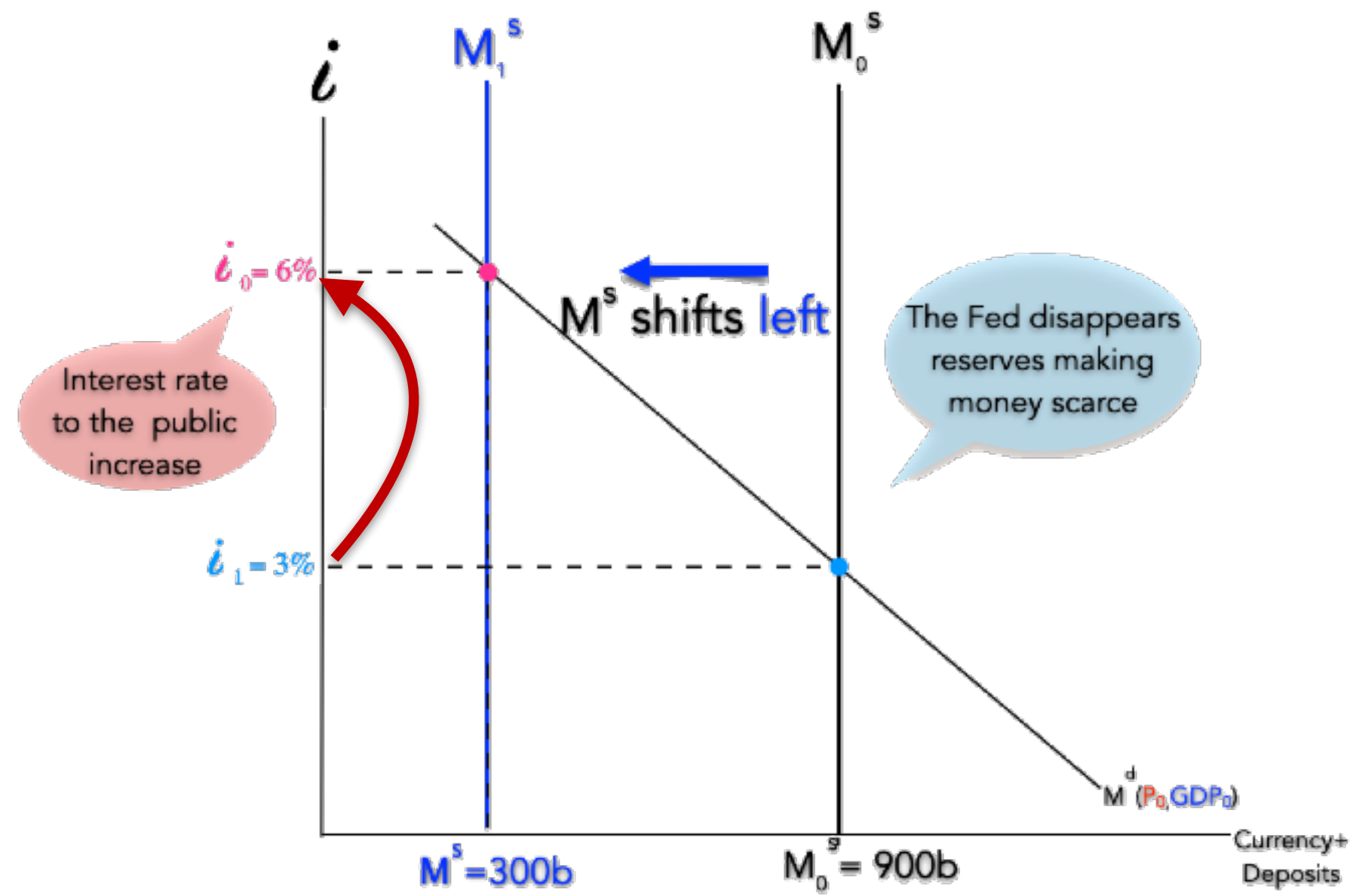


The Bond Market



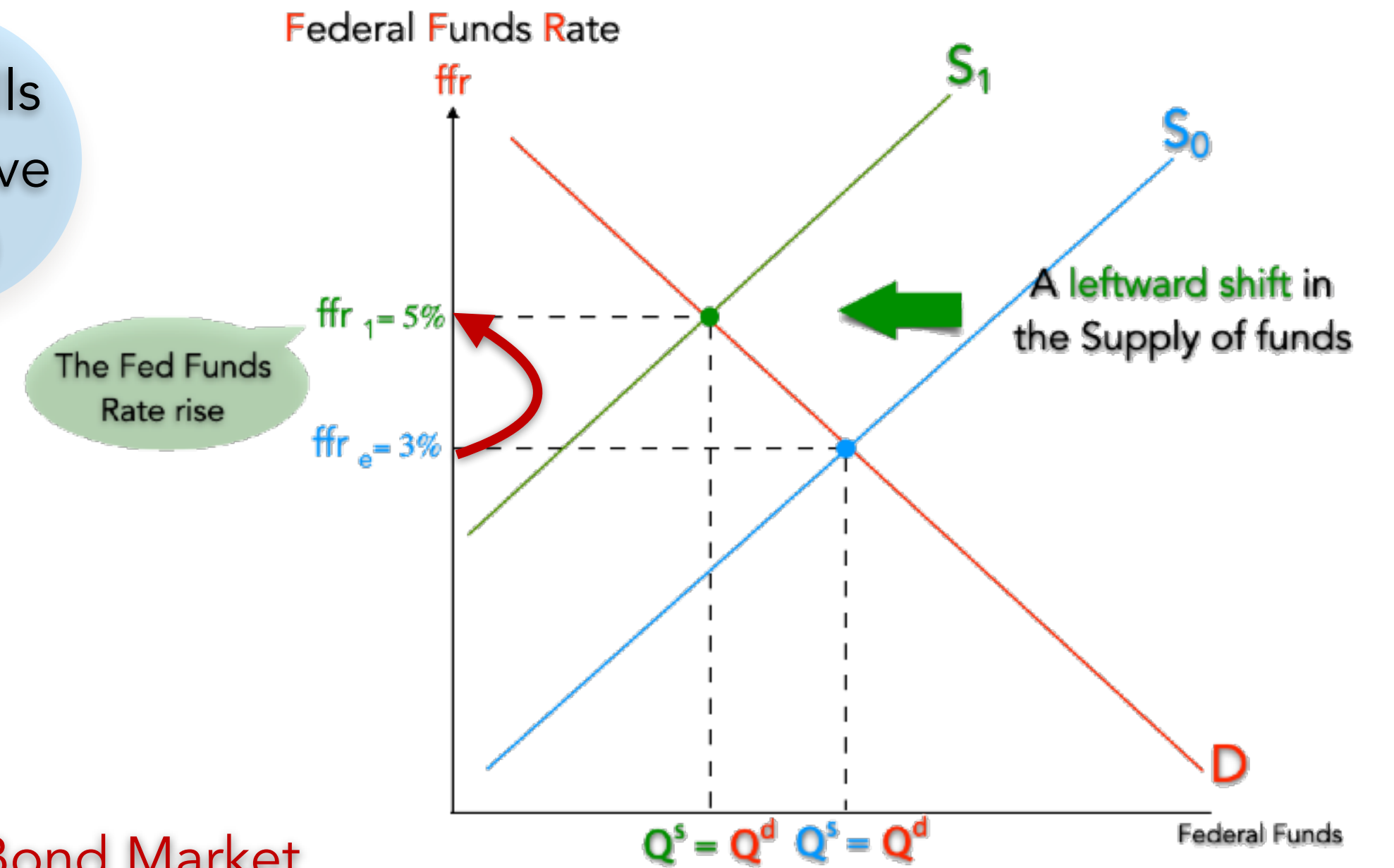
The effect of a Sale of bonds by the Fed

The Money Market

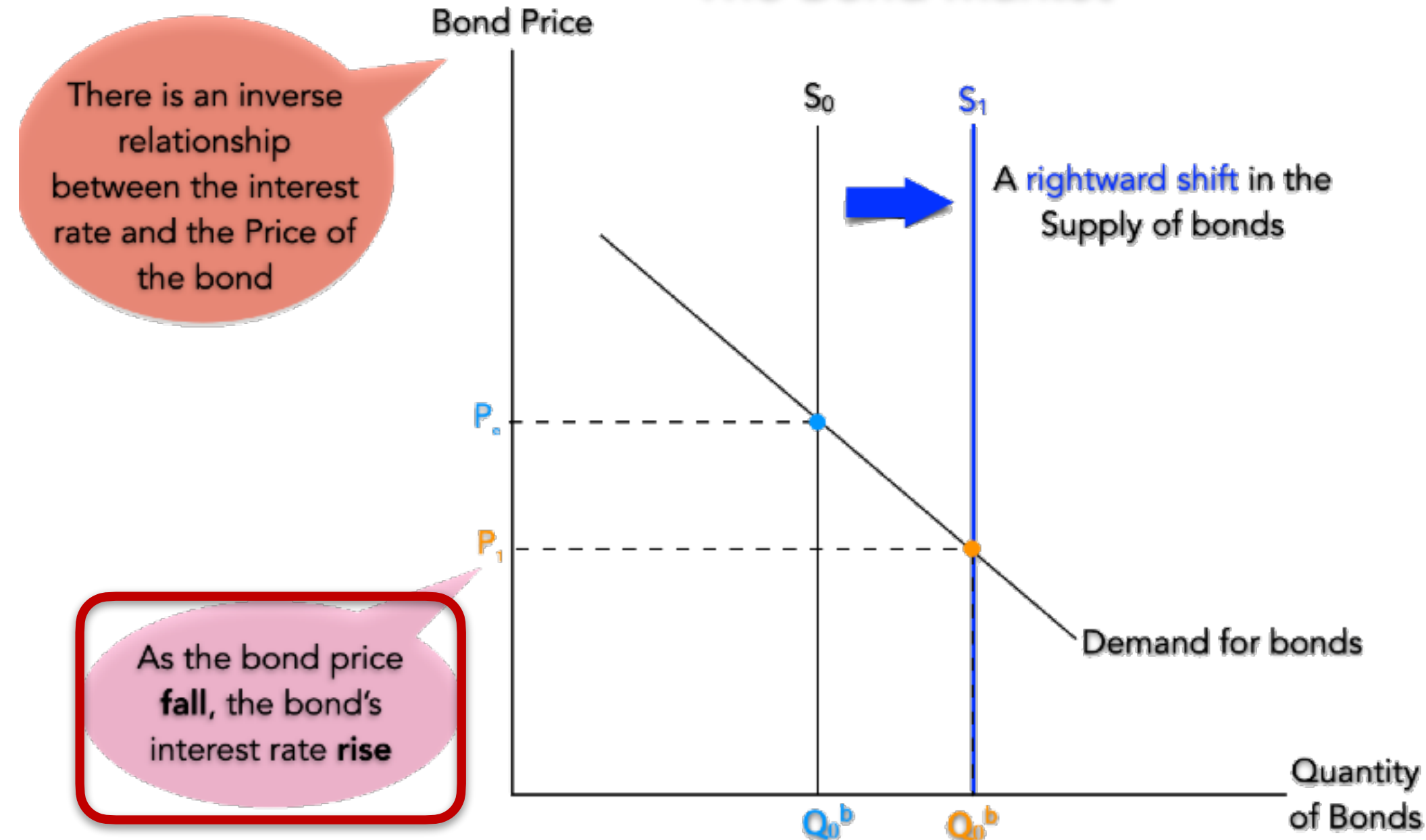


When the Fed sells bonds: Quantitative Tightening (QT)

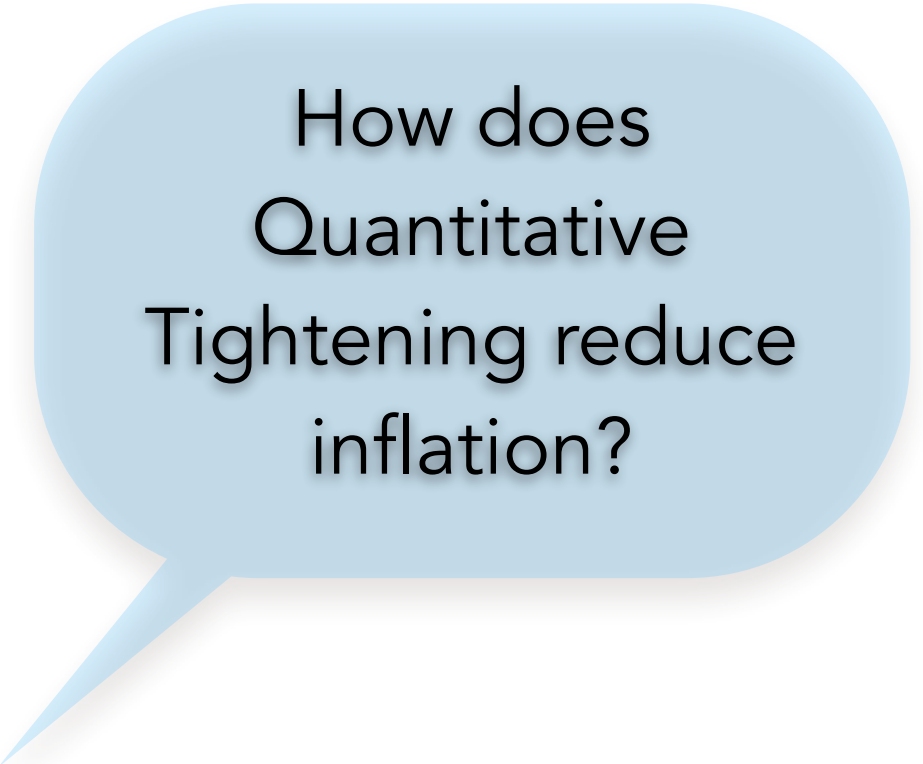
The Federal Funds Market



The Bond Market



Interest rates **increase** in all three markets



How does
Quantitative
Tightening reduce
inflation?