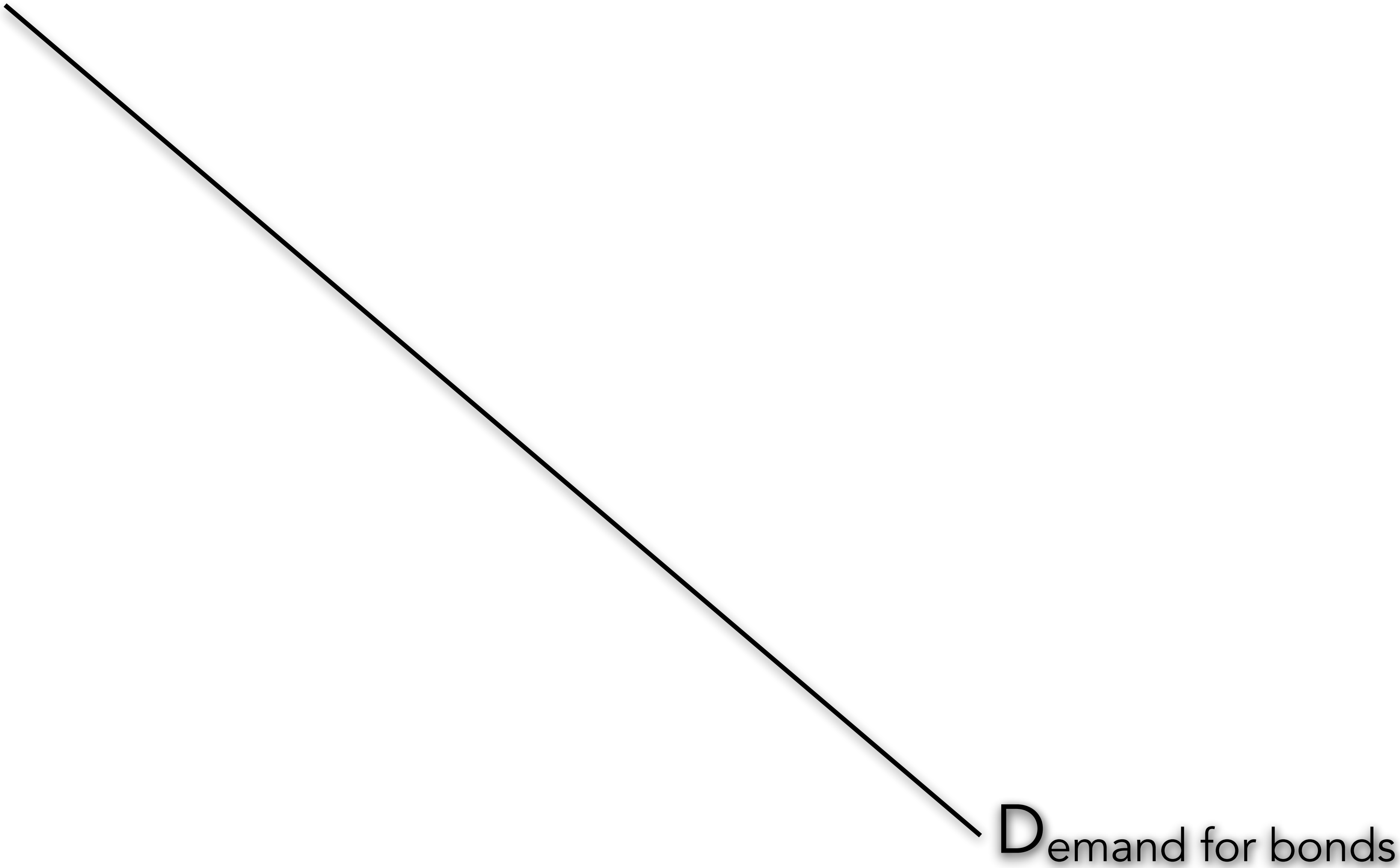

Demand for bonds

Quantity
of Bonds

Supply of Bonds

Bond Price

The effect of a purchase of bonds by the Fed on the Bond Market

Fed **buys**

Bonds

Reduces the amount of bonds available for sale in the Open Market

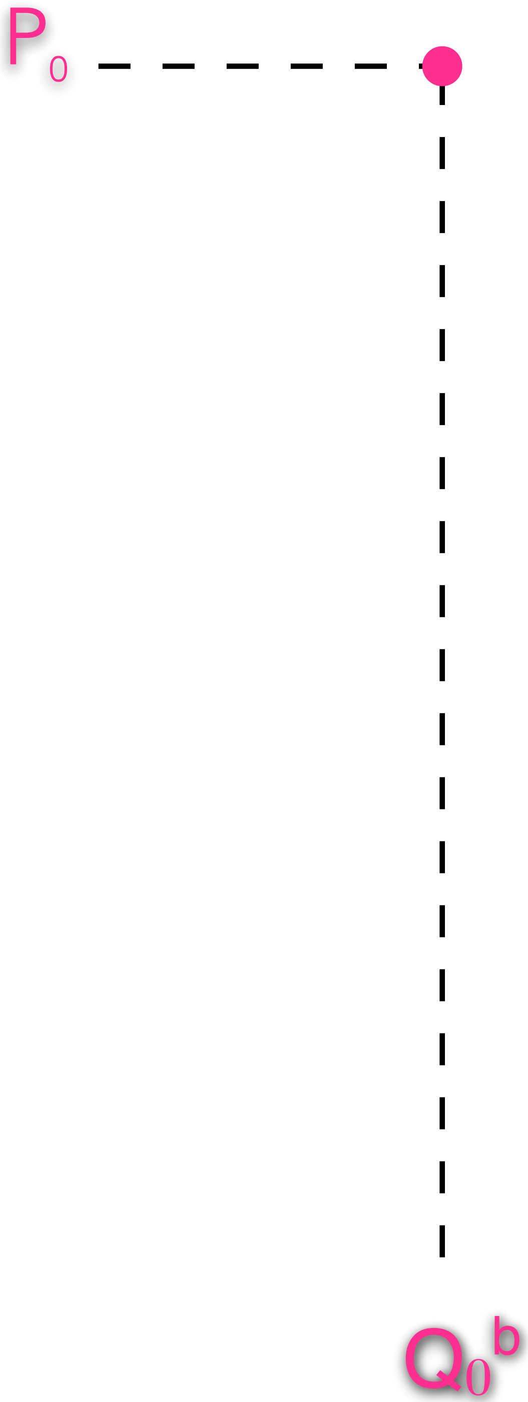
The Supply of bonds **decrease**

A leftward shift in the Supply of bonds

Assume the Bond Market starts at equilibrium


P_e
Q_0^b

S_1


P_0
Q_0^b

The bond price rise to a new equilibrium

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

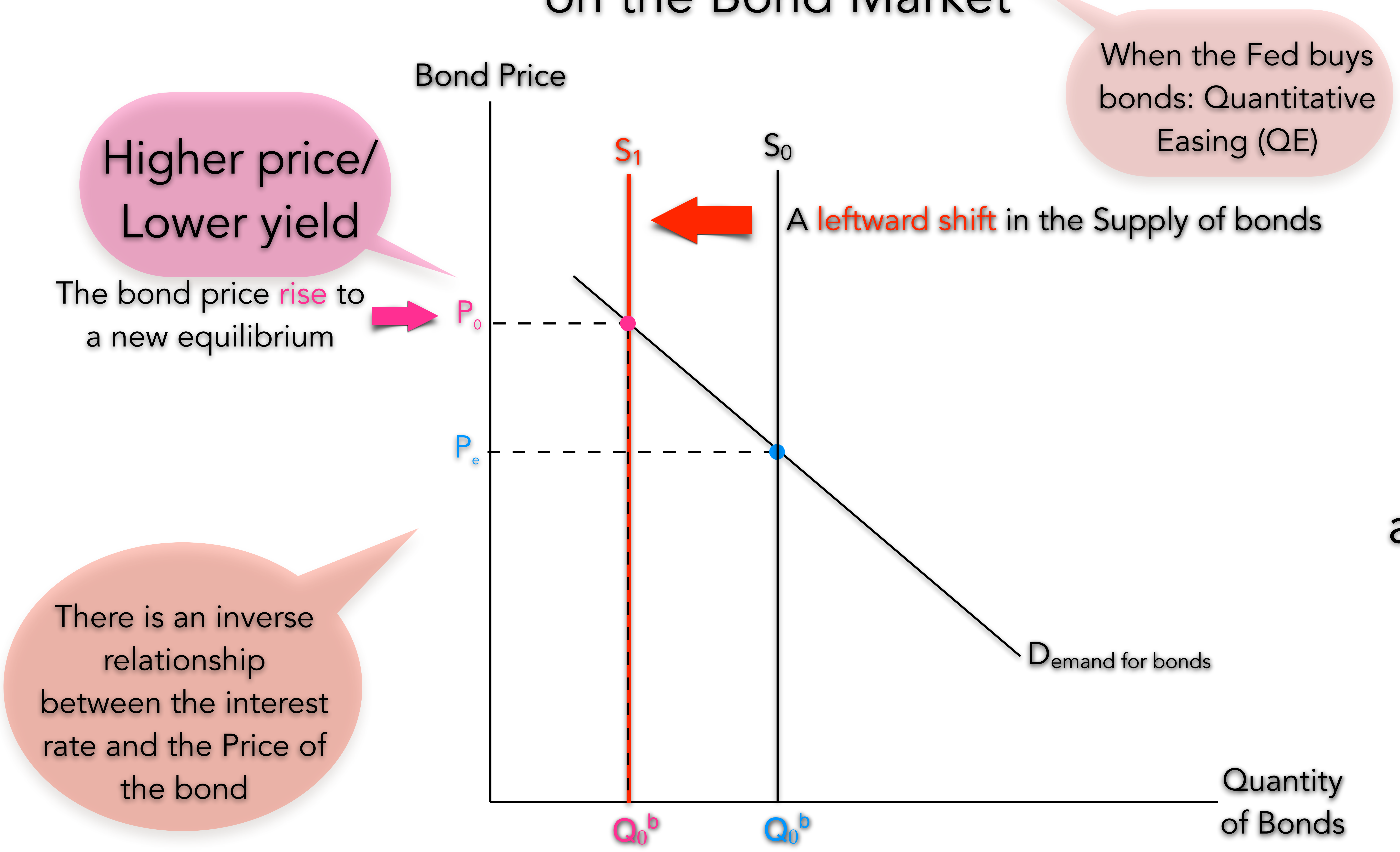
Meaning of Equilibrium: if you want to buy or sell a bond, everyone will offer/charge the same price: P_e

S_0

When the Fed buys bonds: Quantitative Easing (QE)

Higher price/
Lower yield

The effect of a purchase of bonds by the Fed on the Bond Market



Fed **buys** Bonds

Reduces the amount of bonds available for sale in the Open Market

The Supply of bonds **decrease**