

M_1^s



$M_1^s = 1,200b$













e









2



U







a

S







b







S

b

Y







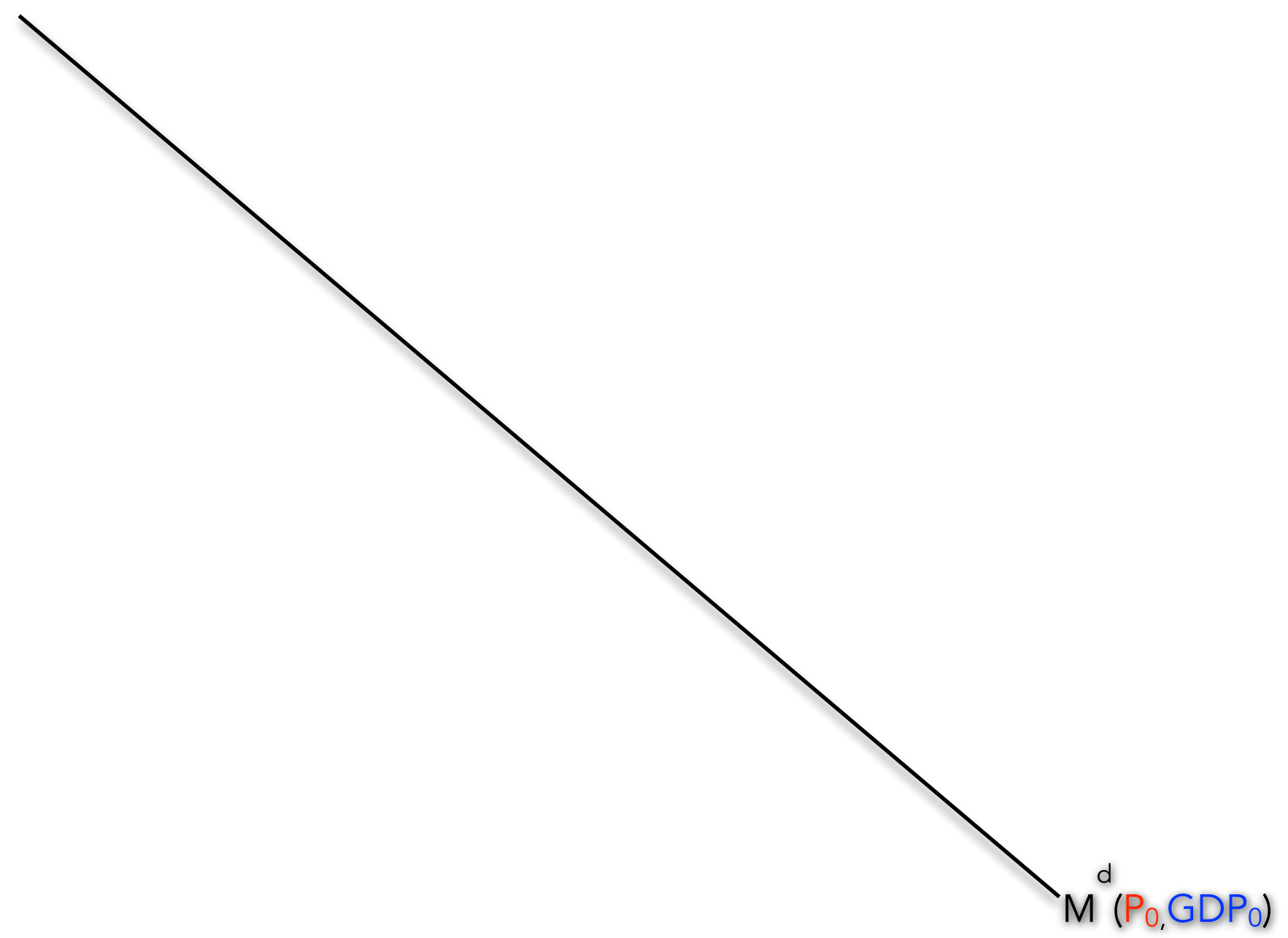






i

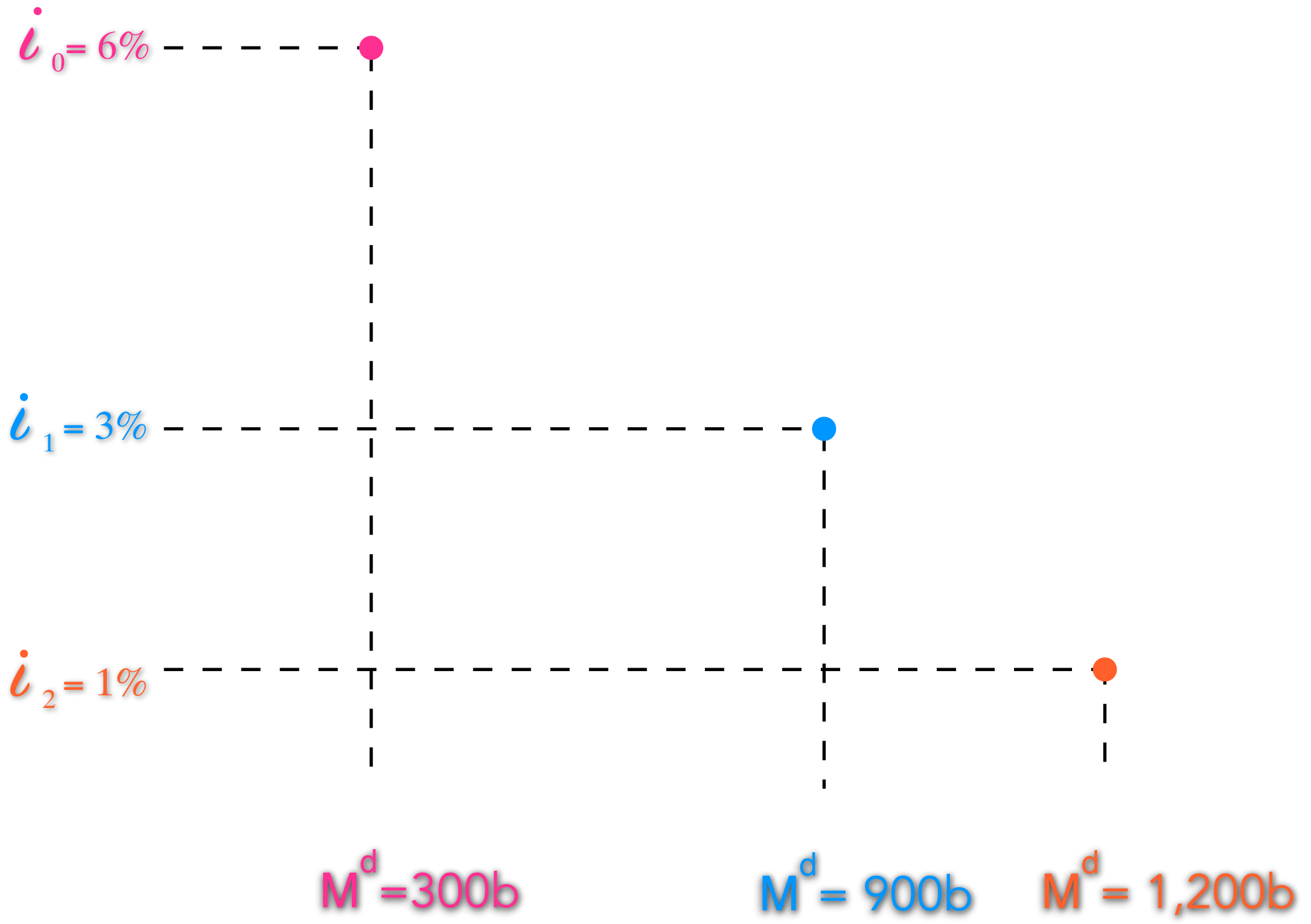




M_0^s



$M_0^s = 900b$





Assume the Money Market
starts at equilibrium at 3%

Feedbuys Bonds:

M^s shifts right

Reserves



Loans



Deposits



M^S



When there are excess liquid
balances, money is plentiful and
there is pressure for the interest
rate to fall



excess liquid balances



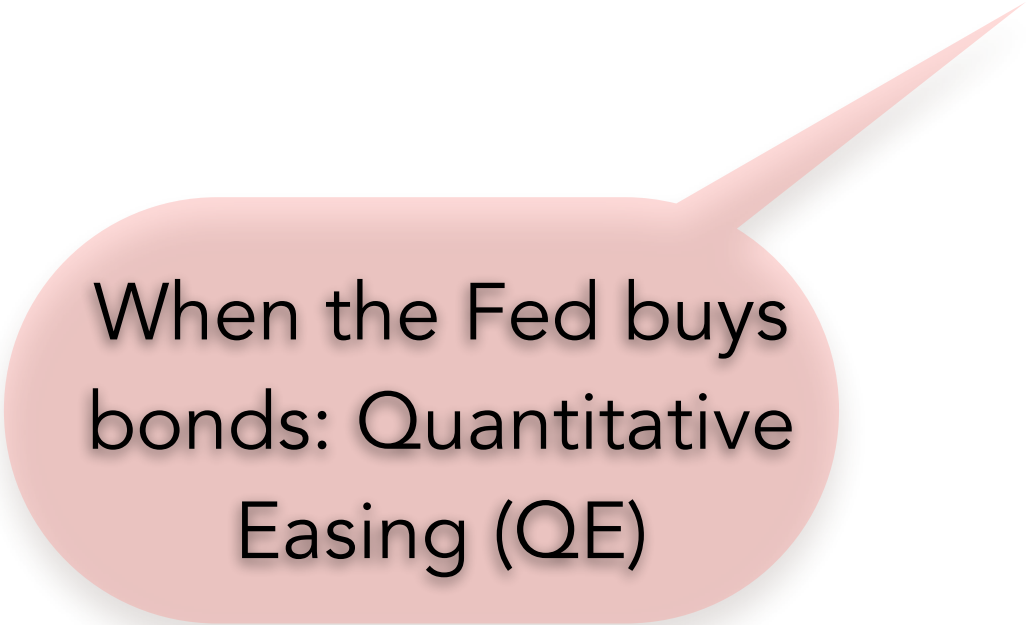
The interest rate will fall to



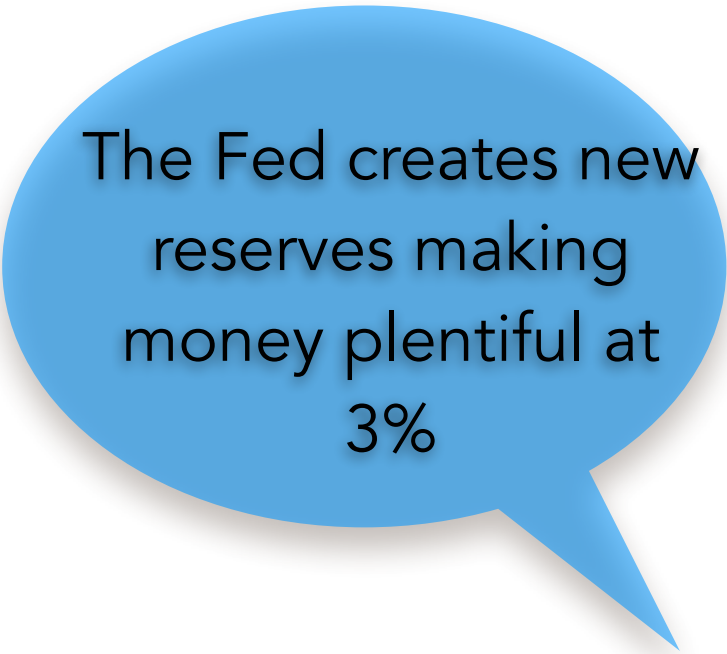
a new equilibrium at 1%



New
equilibrium



When the Fed buys
bonds: Quantitative
Easing (QE)



The Fed creates new
reserves making
money plentiful at
3%

The effect of a purchase of bonds by the Fed

The effect of a **purchase** of bonds by the Fed

When the Fed buys bonds: Quantitative Easing (QE)

