



D (from banks short of reserves)

Federal Funds





S_0 (from banks
with excess
reserves)

























R













The effect of a **sale** of bonds by the Fed on the
Federal Funds Market

Feedseis Bonds:

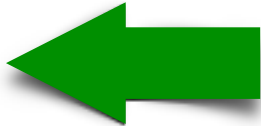
A sale of bonds by the Fed
eliminates reserves from the
banking system



There will be fewer banks
with Excess Reserves



The **Supply** of funds in this
market decrease



A leftward shift in
the Supply of funds

$\text{ffr}_e = 3\%$



$Q^s = Q^d$


Assume the
market starts at
equilibrium



S_1 (from banks
with excess
reserves)

A green line originates from the text and extends diagonally towards the bottom-left corner of the image.

$\text{ffr}_1 = 5\%$



A diagram consisting of a horizontal dashed line and a vertical dashed line meeting at a green dot in the top right corner. The horizontal line is labeled with the text $\text{ffr}_1 = 5\%$ in green. The vertical line is labeled with the text $Q^s = Q^d$ in green and red at the bottom right.

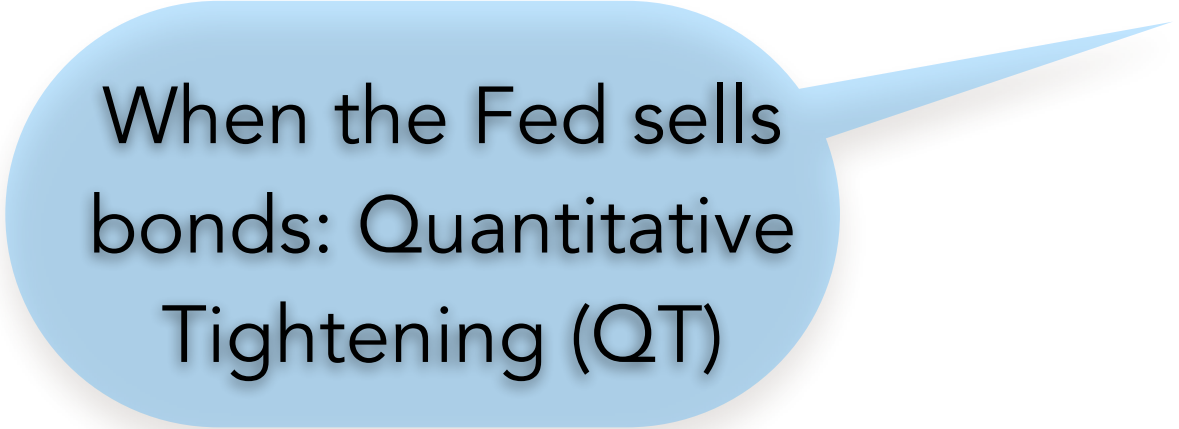
$Q^s = Q^d$



The Fed Funds
Rate rise

Reserves





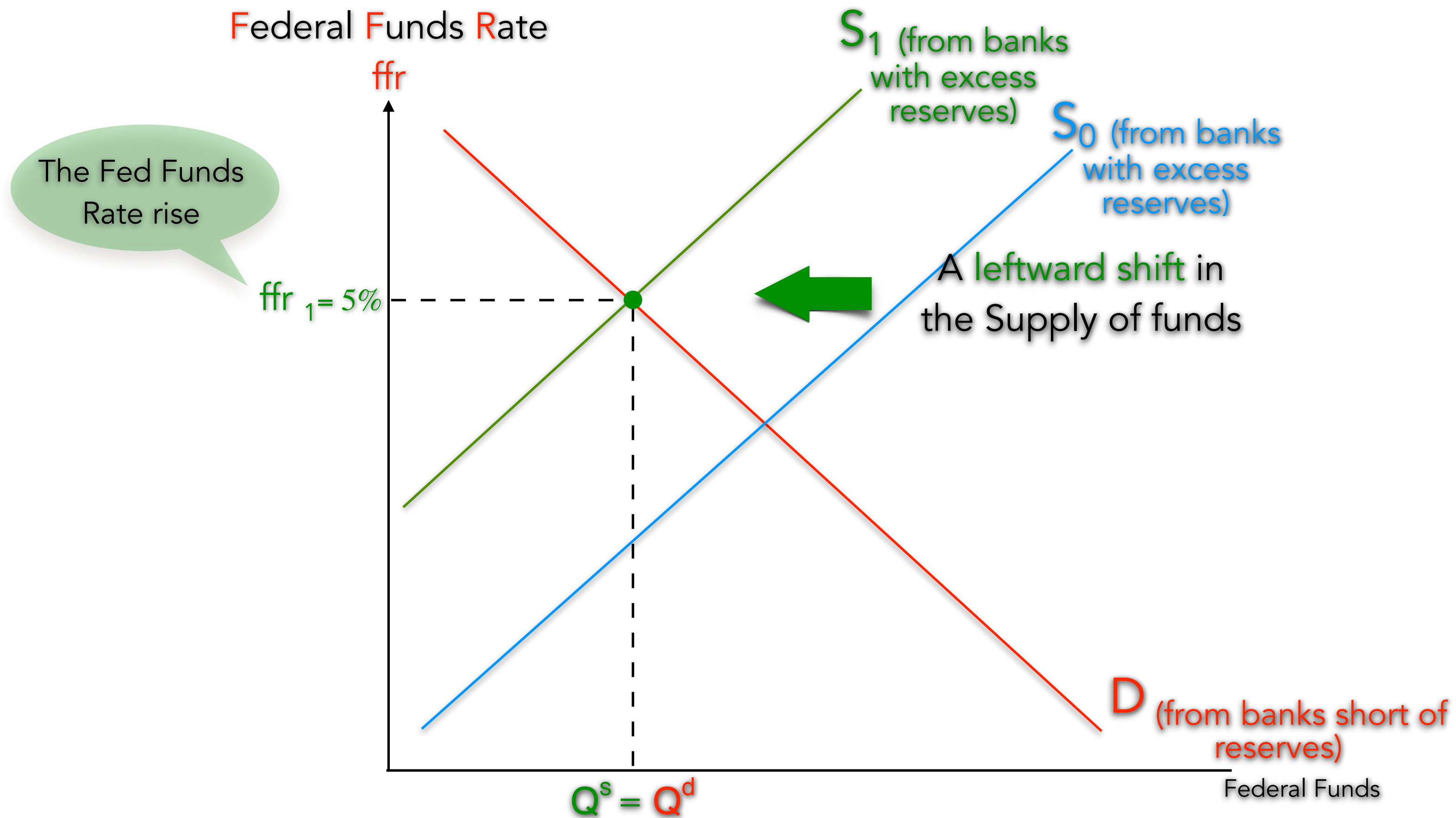
When the Fed sells
bonds: Quantitative
Tightening (QT)

Federal Funds Rate

ffr

The effect of a **sale** of bonds by the Fed on the Federal Funds Market

When the Fed sells bonds: Quantitative Tightening (QT)



Fed **sells** Bonds: **Reserves** ↓

A **sale** of bonds by the Fed **eliminates** reserves from the banking system

There will be **fewer** banks with Excess Reserves

The **Supply** of funds in this market **decrease**