

Demand for bonds

P_0 ————— ●

Q_0

Bond Price



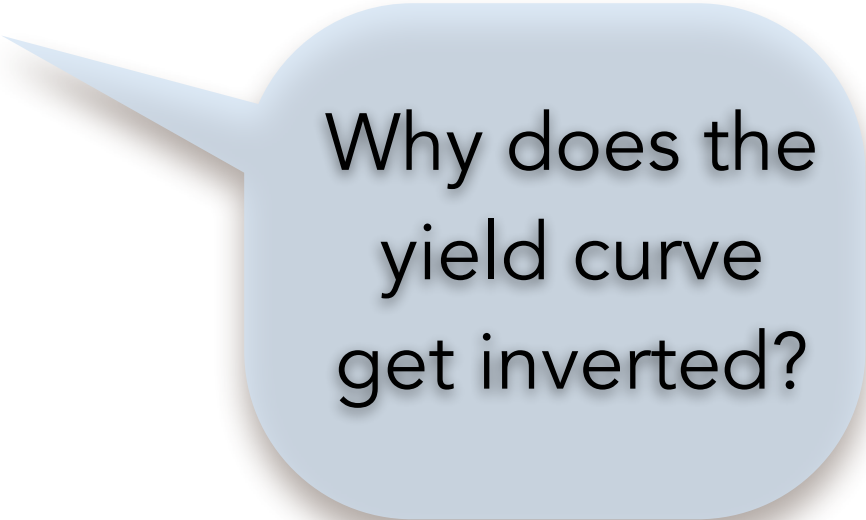
Quantity
of Bonds

P_1 ————— ●

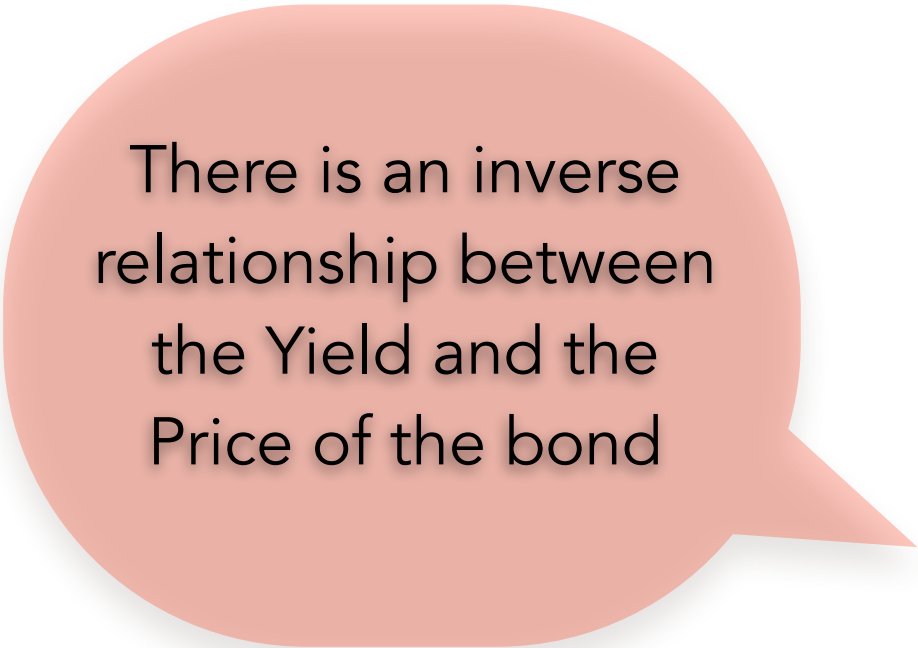
Q_1

Supply of bonds





Why does the
yield curve
get inverted?



There is an inverse
relationship between
the Yield and the
Price of the bond

Assume the market
for **Short** Term
Bonds starts at
equilibrium at P_0









V











V











U



V









U



S







6

U

S













S











9







mm

B











2





6







2









S

















B












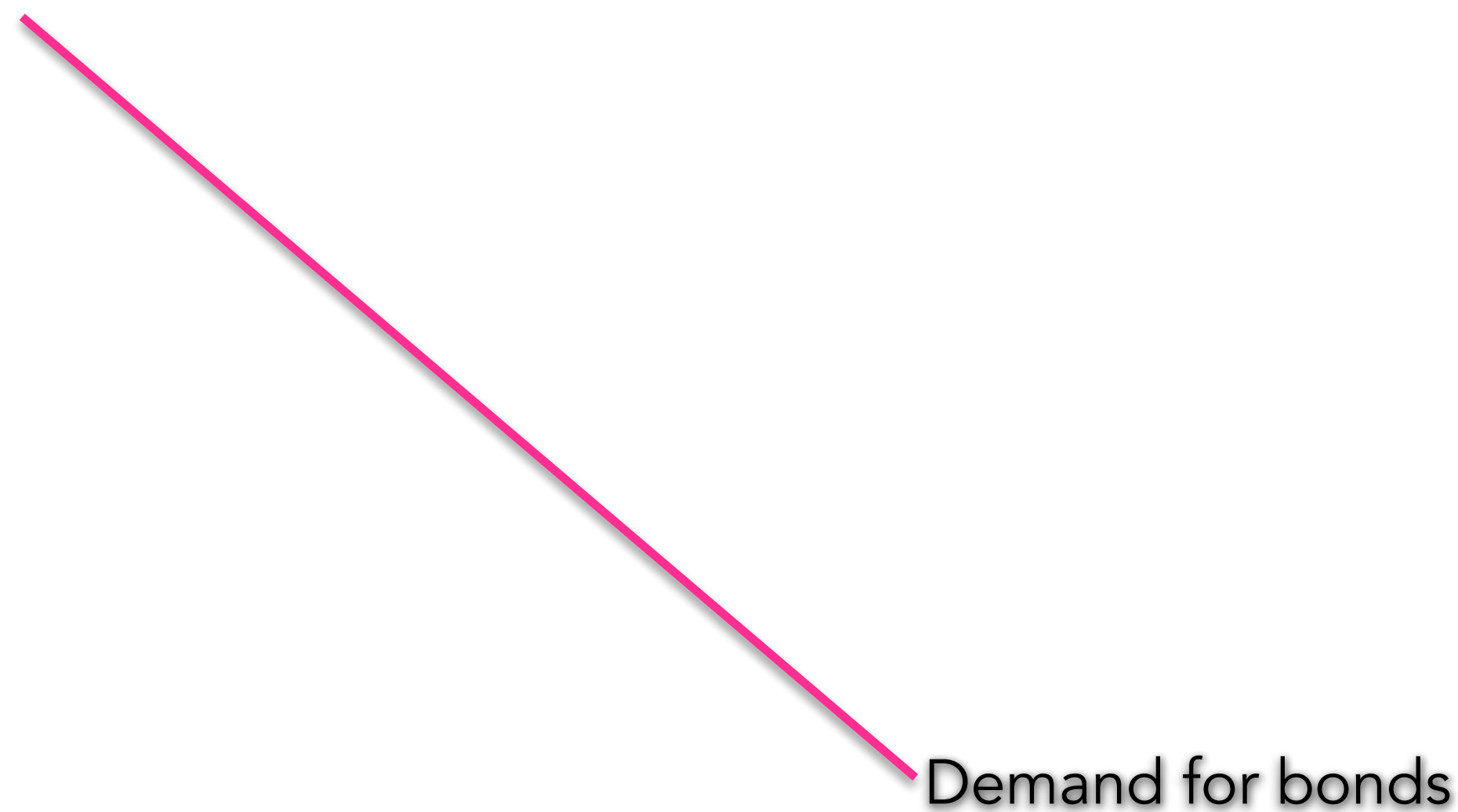


S



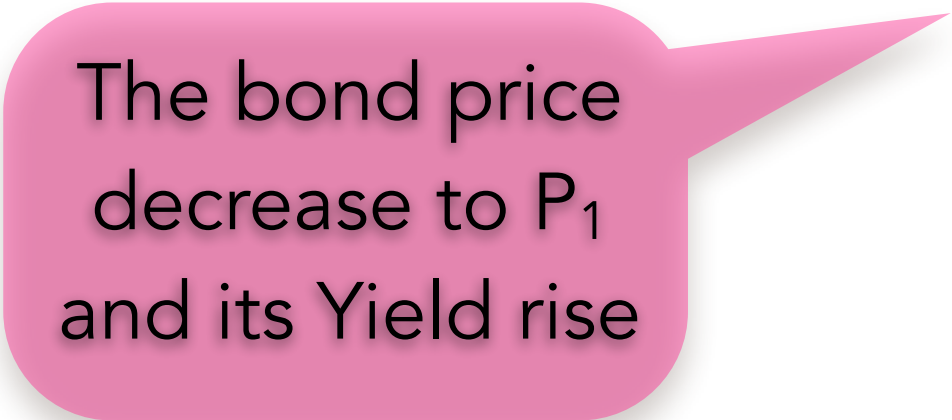


If investors are worried about a recession they want to move their money away from stocks and short term bonds to “fail safe” Long Term Government bonds





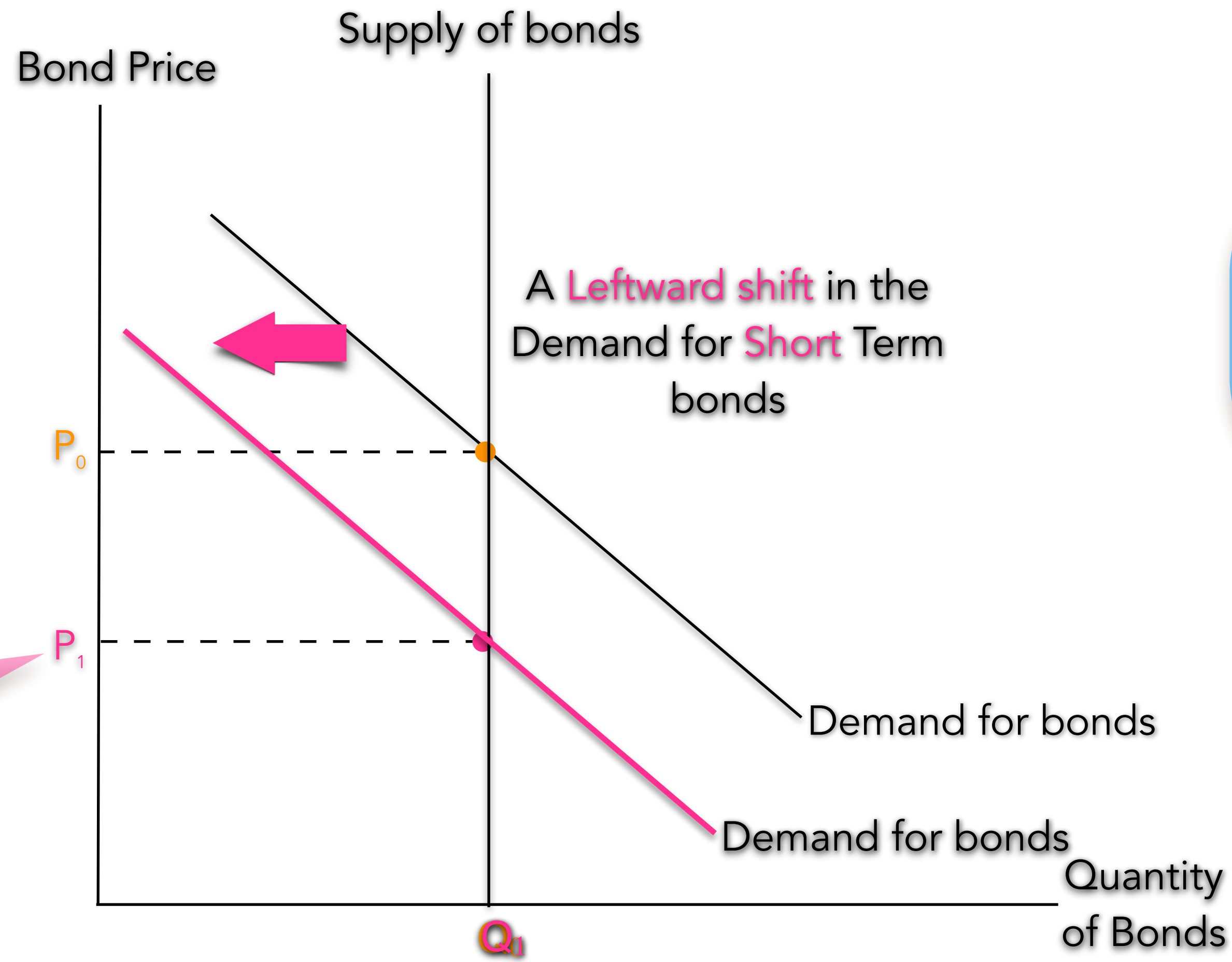
A Leftward shift in the
Demand for Short Term
bonds

A pink speech bubble with a pointed tail on the right side, containing text about bond prices and yields.

The bond price
decrease to P_1
and its Yield rise

An inverted yield curve occurs because Yields on **Long** Term Bonds **fall** and Yields and on **Short** Term Bonds **rise**

There is an inverse relationship between the Yield and the Price of the bond



The bond price decrease to P_1 and its Yield rise

If investors are worried about a recession they want to move their money away from stocks and short term bonds to "fail safe" Long Term Government bonds

Why does the yield curve get inverted?

Historical Yield **Spread** between 10Year and 1Year Government Bonds

