



























2

S

2









**b**







S

**b**



**Y**









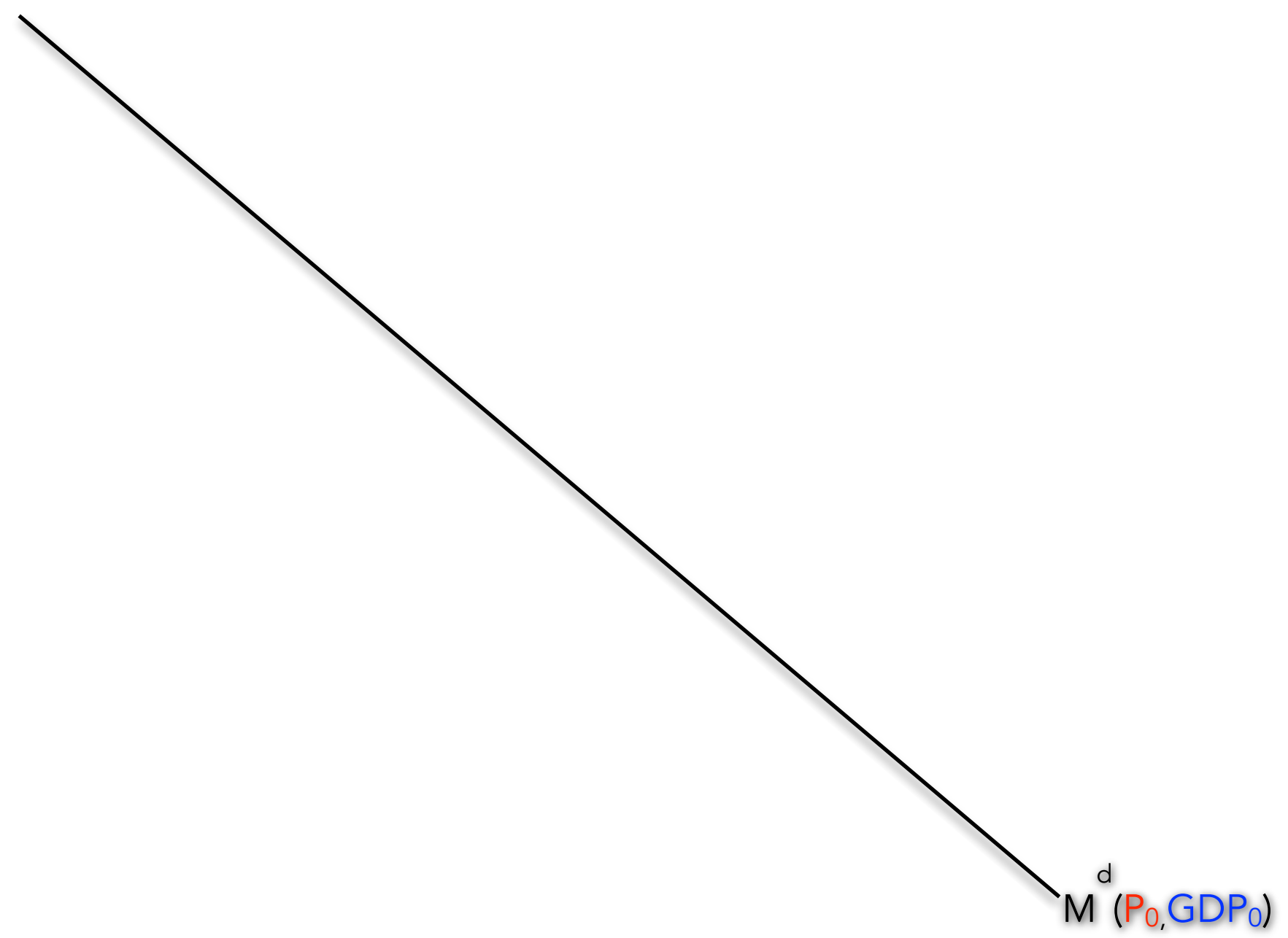




*i*







$M_0^s$



$M_0^s = 900b$

$i_0 = 6\%$

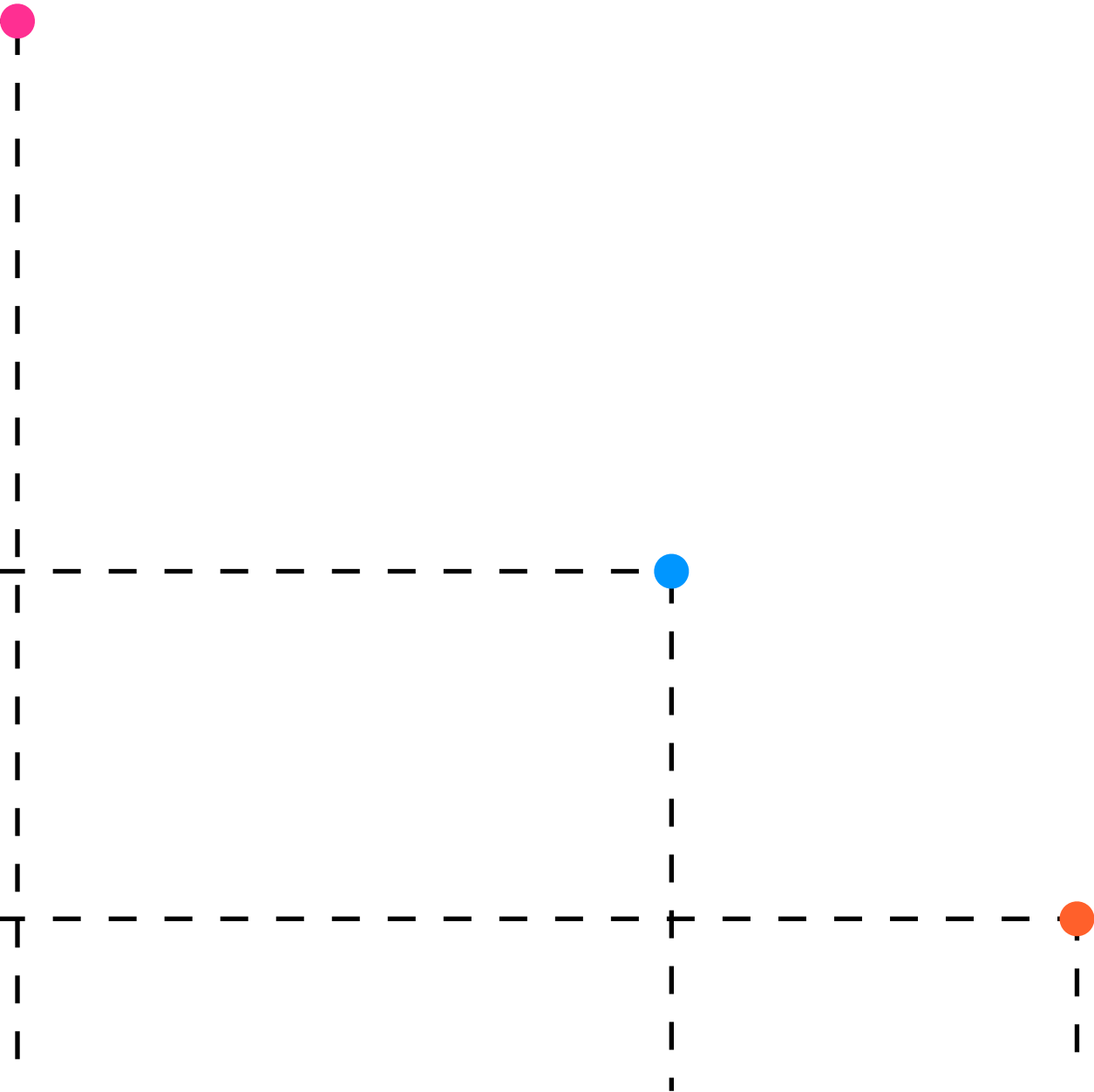
$i_1 = 3\%$

$i_2 = 1\%$

$M^d = 300b$

$M^d = 900b$

$M^d = 1,200b$





Assume the Money Market  
starts at equilibrium at 3%

Feedseis Bonds:

$M^s$  shifts left



Reserves





Loans



Deposits



$M^S$



$M_1^S$



$M^S = 300b$

Short of liquid  
balances



When there are shortages of liquid  
balances, money is scarce and  
there is pressure for the interest  
rate to rise



The interest rate will rise to




a new equilibrium at 6%




New  
equilibrium





The Fed disappears  
reserves making money  
scarce at 3%



When the Fed sells  
bonds: Quantitative  
Tightening (QT)



The effect of a sale of bonds by the Fed

# The effect of a **sale** of bonds by the Fed

When the Fed sells bonds: Quantitative Tightening (QT)

→ The interest rate will **rise** to a new equilibrium at **6%**

