

Demand for funds decrease

Federal Funds Rate

ffr

S_0 (from banks
with excess
reserves)

A leftward shift in
the Demand of
funds

$ffr_e = 3\%$

$ffr_1 = 2\%$

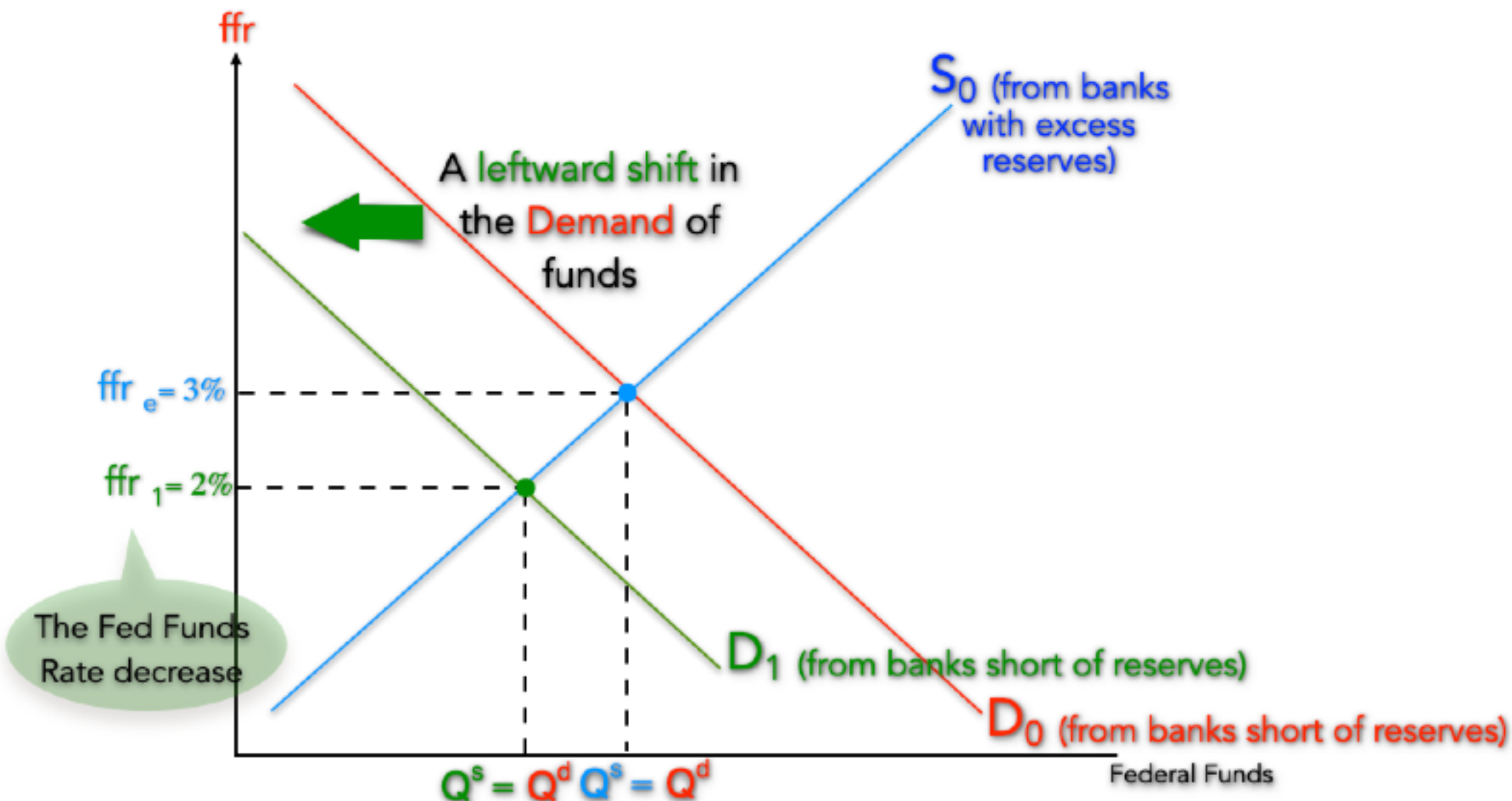
The Fed Funds
Rate decrease

D_1 (from banks short of reserves)

D_0 (from banks short of reserves)

$Q^s = Q^d$ $Q^s = Q^d$

Federal Funds



Demand for funds increase

Federal Funds Rate

ffr

The Fed Funds
Rate increase

$ffr_1 = 4\%$

$ffr_e = 3\%$

S_0 (from banks
with excess
reserves)

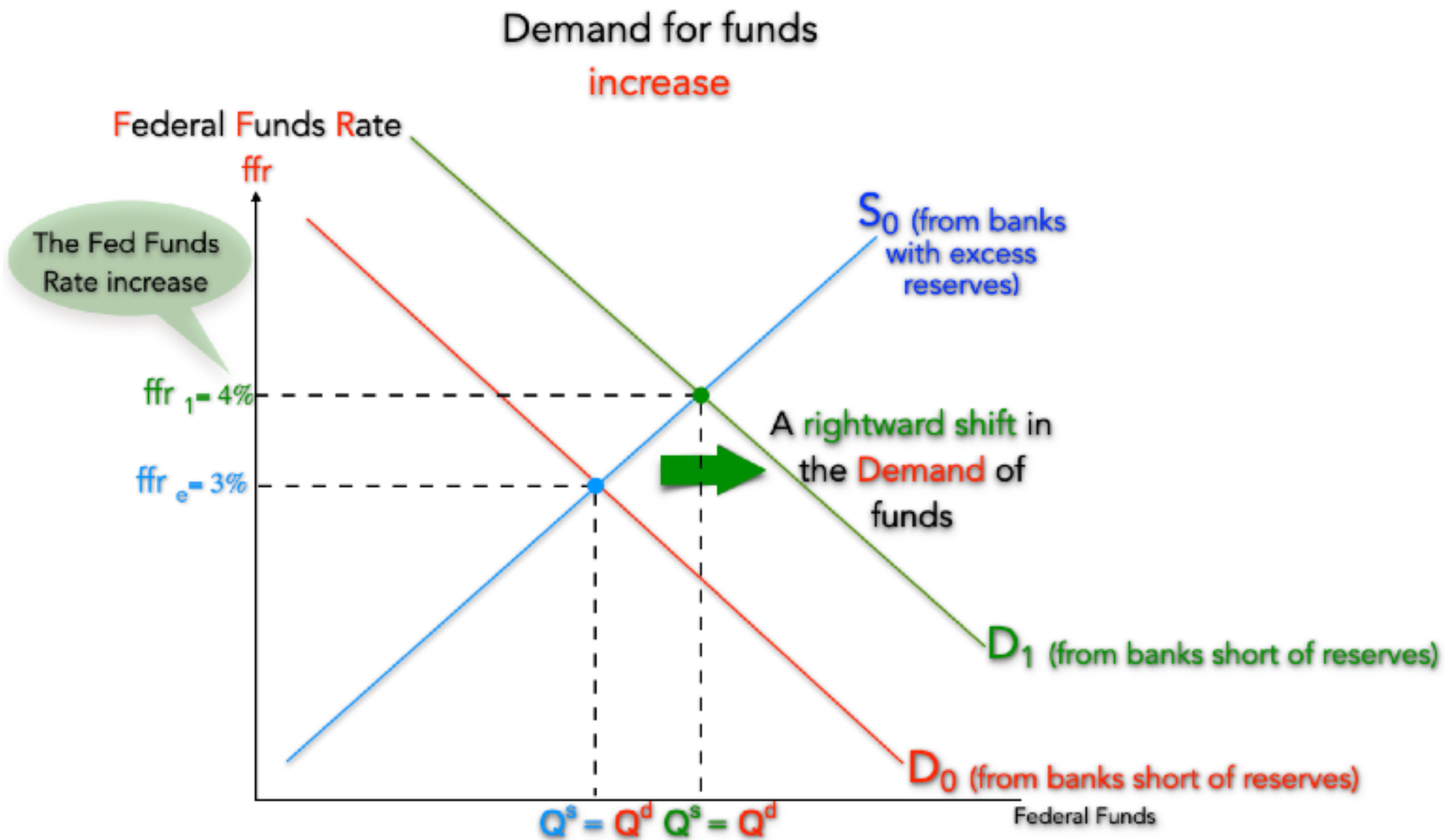
A rightward shift in
the Demand of
funds

D_1 (from banks short of reserves)

D_0 (from banks short of reserves)

$Q^s = Q^d$ $Q^s = Q^d$

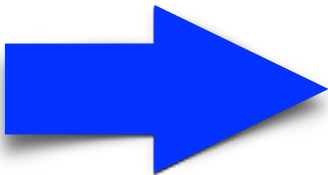
Federal Funds



Monetary Policy Tools

3. Required Reserves Ratio

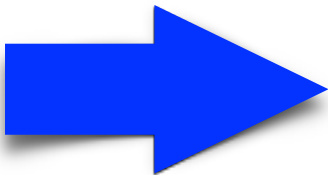
When the Fed Increase the
Required Reserves Ratio,
more banks become Short of
Reserves



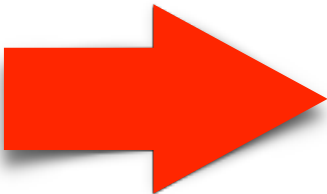
Increase in the
Demand for
Federal Funds

The Federal Funds

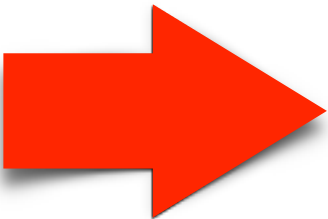
Rate decrease



When the Fed Decrease
the Required Reserves
Ratio, fewer banks will be
short of reserves



Decrease in the
Demand of Federal
Funds

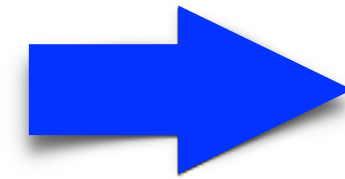


The Federal Funds
Rate increase

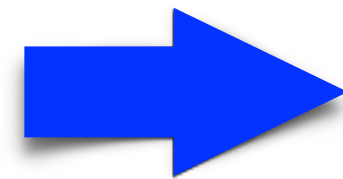
Monetary Policy Tools

3. Required Reserves Ratio

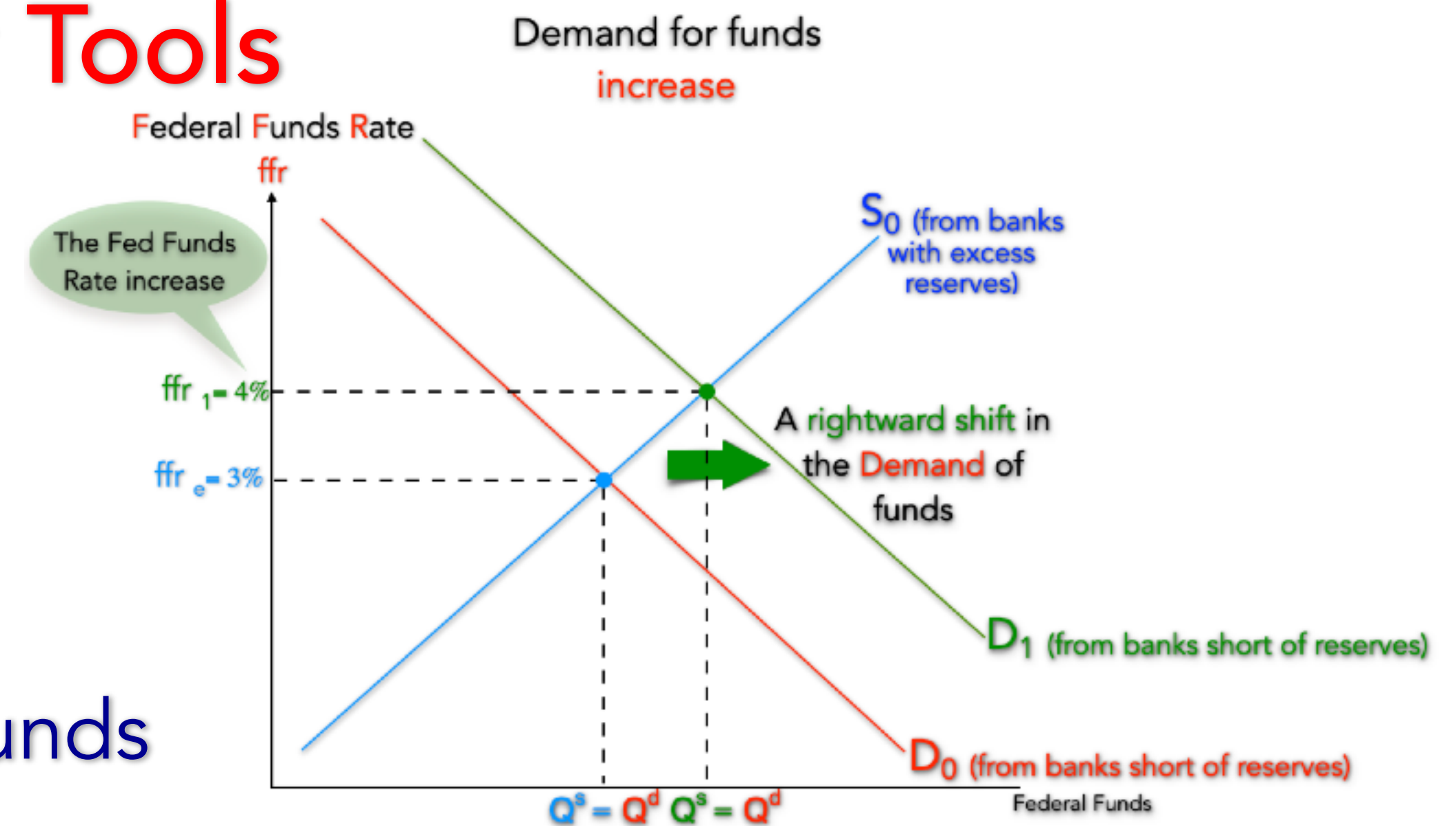
When the Fed Increase the Required Reserves Ratio, more banks become Short of Reserves



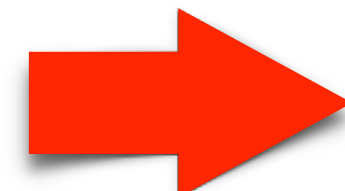
Increase in the Demand for Federal Funds



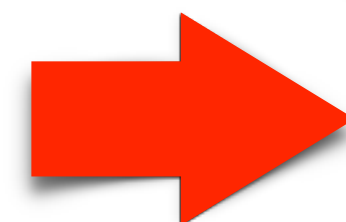
The Federal Funds Rate increase



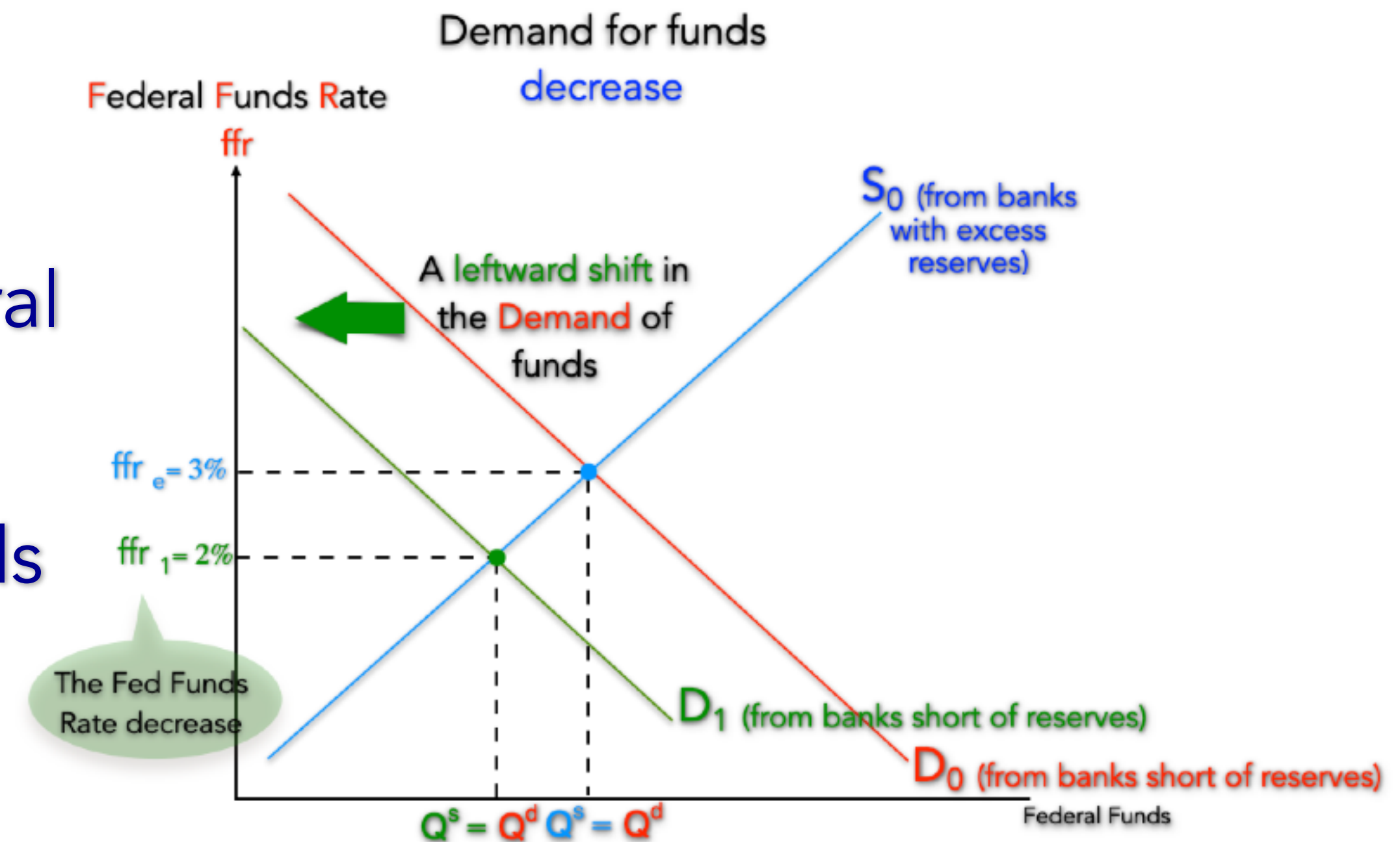
When the Fed Decrease the Required Reserves Ratio, fewer banks will be short of reserves



Decrease in the Demand of Federal Funds



The Federal Funds Rate decrease



The Yield Curve Plots yield on Government Bills, Notes and Bonds