









e







2





U





S

M

2





e























b

U









S





2

V



b

2





S





S





2

V

























6





U











S





V



S

R

[REDACTED]

[REDACTED]







Some banks end
with less in
reserves than
required

Some banks end
the day with more
reserves than
required

Borrowed Funds

i





D funds

These banks
want a low
interest rate

Loanable Funds

i

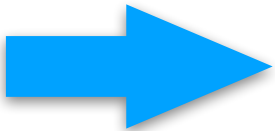


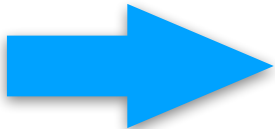
S_{funds}

A solid blue line with a positive slope, starting from the bottom-left and extending towards the top-right. It appears to be a linear function on a coordinate plane, though the axes are not explicitly shown.

These banks
want a high
interest rate

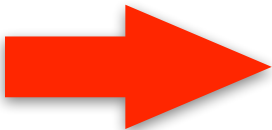
These banks with
excess reserves, want
to lend these reserves
to other banks

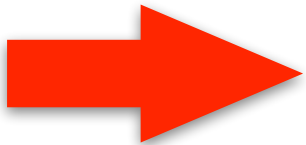




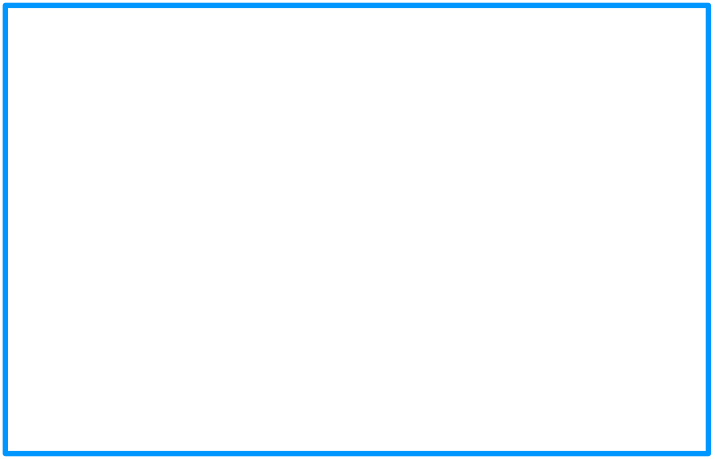
This creates a
Supply of funds
for lending

These banks **short**
of reserves, must
borrow reserves
from other banks





This creates a
Demand for
borrowing funds









B





29













S



R









V





2













2

S

















W













F

















2











S



24





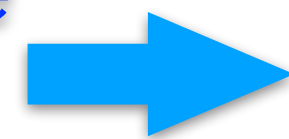
At the end of business day, banks must have
the required amount of reserves $R = r^*D$

Because these **Reserves** are held as deposits with the Fed, this market is called

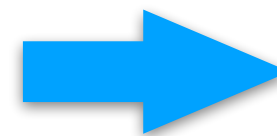
The Federal Funds Market

At the end of business day, banks must have the required amount of reserves $R = r * D$

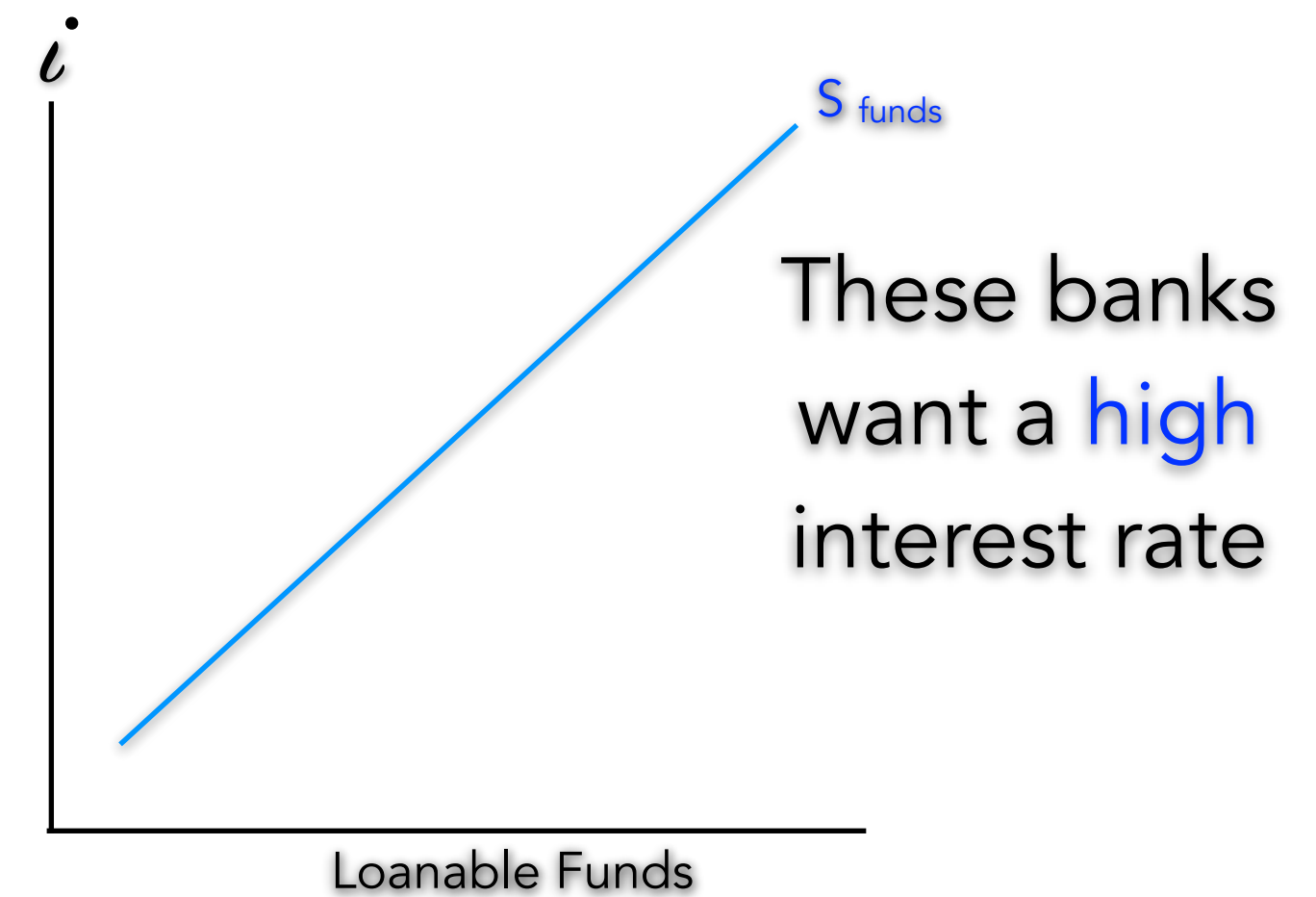
Some banks end the day with **more** reserves than required



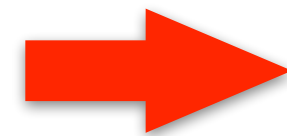
These banks with **excess reserves**, want to **lend** these reserves to other banks



This creates a **Supply** of funds for lending



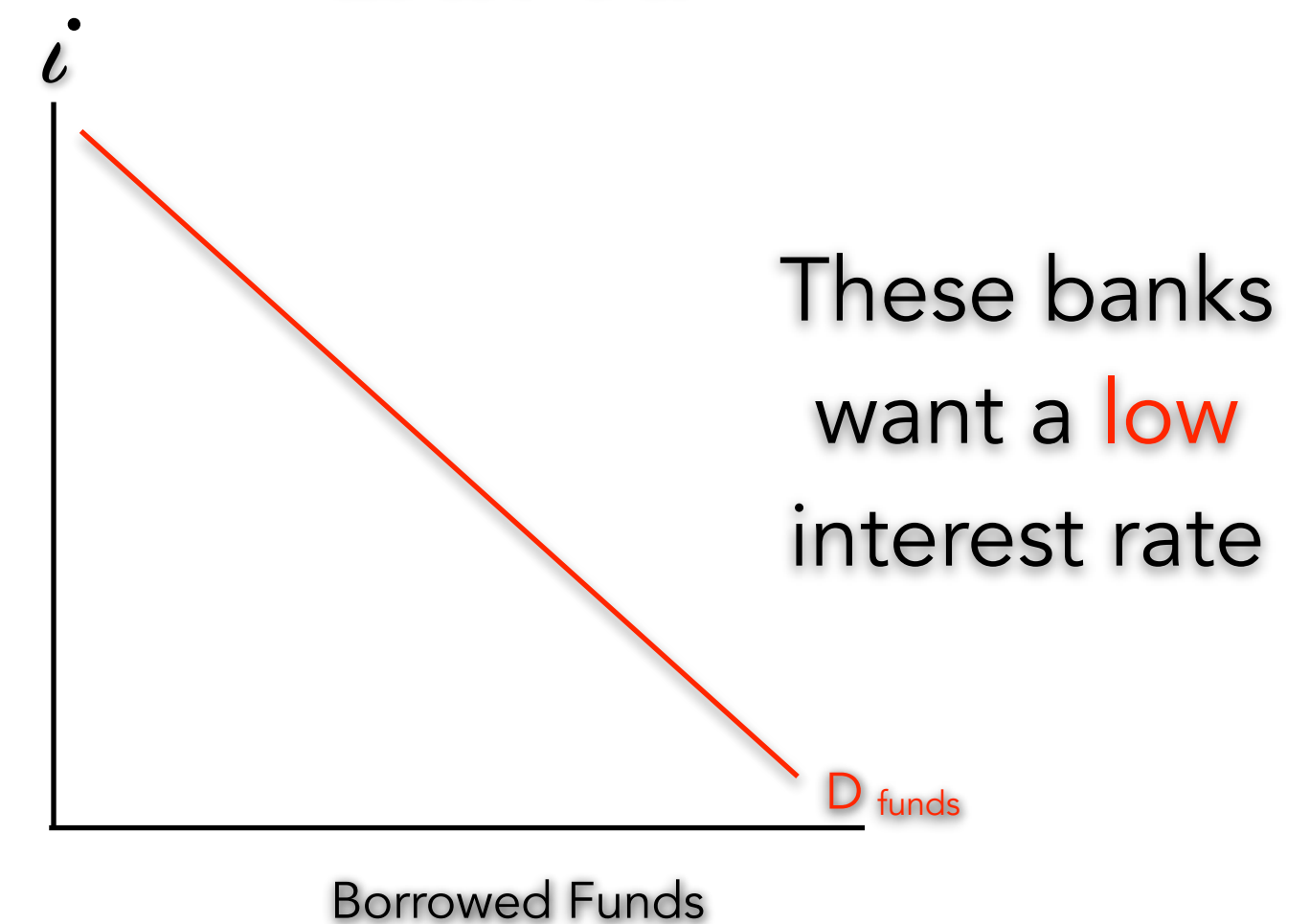
Some banks end with **less** in reserves than required



These banks **short of reserves**, must **borrow** reserves from other banks



This creates a **Demand** for borrowing funds



The Federal Funds Market