

Has do we get to equilibrium?

What if $\Gamma_{HT} = 970 > \Gamma_{T} = 675^{2}$

Excess Sopply of Money Bond Cries of J Excess Durrend for Donds

What if runs = 370 & r, = 670?

Connection Between Bond Prices & Interest Rutes

Bonds in Monetary Policy

Example ? "100, one-year bond

En one year, Bond is worth 5/28/26 B 100 > 200 100 cash

1 99,99 Max Price on Bond -

Incogine, Price = #75

Return - Bond Value - Bond Prim - 25 Interest Rate - Return on Bond x100 = 25x100 Bond Price



Highly Desirable "Risk - Free " Retern!" Excess Demond > Bond Price will rise!

New Price = \$90

Therest Que = Petrin on Bond x100 = 10 100 Price of Bond = 11.172 As Bond Price increased from 75 to 90

Int. Que decreased from 33.375 to 11.125











Why is the interest rate so important? When is the interest rate so important? Interest Rate 7 Cost of borrowing reverse for source Assume interest rate decreans from 5% to 2% 1.) Buy more of ... cars (auto loans), homes (?) durable goods > require a loan to buy funiture, expensive yord tool, appliance As r V, consumption increases = ACT C = AC + upc (Y - T)As r 1 = D Consemption decreases DACL Directly influencing AC 2.) New Homes Construction As r t = >> I T^e As r t =>> I T^e Directly influencing T^e 3) firms that borrow > Capitar Indestments = Il As (1, 1I, Ms (1, I')







