

# The Behavior of Interest Rates

## ECO 420 Lecture 3.1.

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- 1 The Demand-Side of the Debt Market
- 2 Equilibrium on the Debt Market

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**SUMMARY** Table 1 Response of the Quantity of an Asset Demanded to Changes in Wealth, Expected Returns, Risk, and Liquidity

Variable	Change in Variable	Change in Quantity Demanded
Wealth	↑	↑
Expected return relative to other assets	↑	↑
Risk relative to other assets	↑	↓
Liquidity relative to other assets	↑	↑

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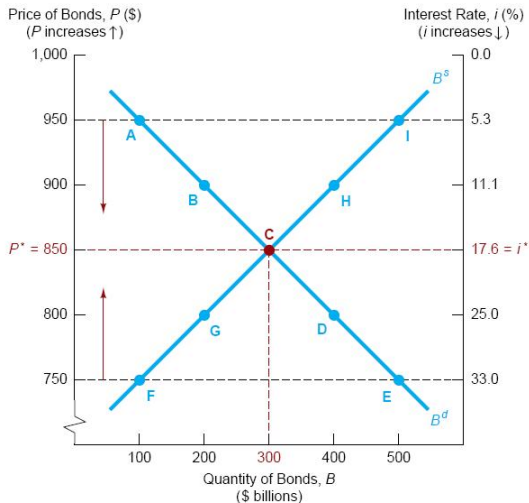
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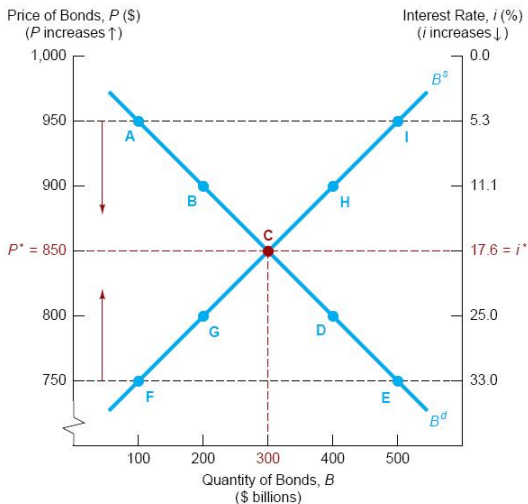
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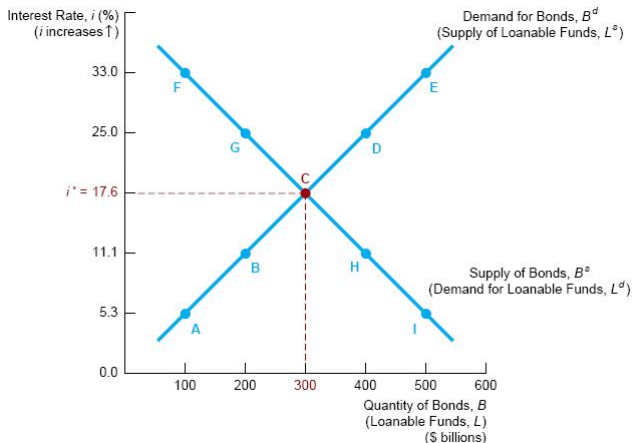


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Let's reverse the graph...

# The Loanable Funds Framework for Analyzing Equilibrium



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