

Changes in Equilibrium Interest Rates

ECO 420 Lecture 3.2.

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Outline

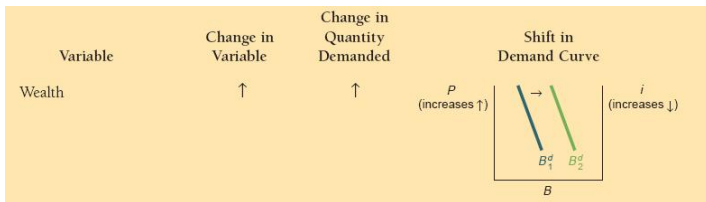
- 1 Changes on the Demand Side
- 2 Changes on the Supply Side
- 3 Equilibrium on the Bonds Market: Applications

Changes on the Demand Side of the Asset Market

What were the factors changing demand for assets?

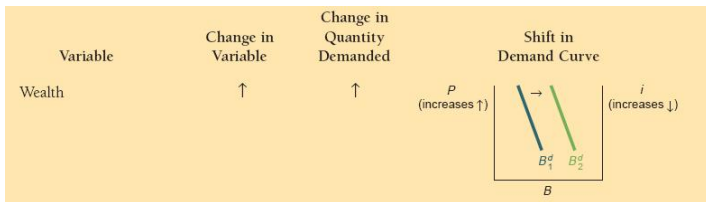
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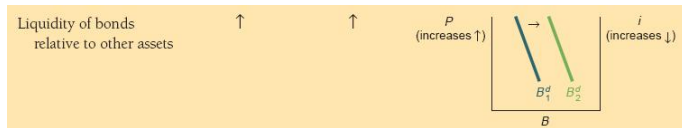
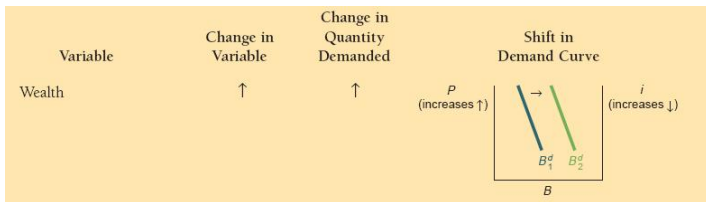
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The Impact of Expected Return on the Demand for Assets

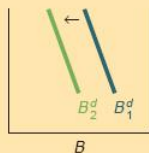
The Impact of Expected Return on the Demand for Assets

Expected interest rate



P
(increases ↑)

i
(increases ↓)

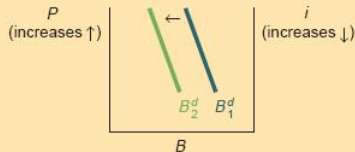


The Impact of Expected Return on the Demand for Assets

Expected interest rate

↑

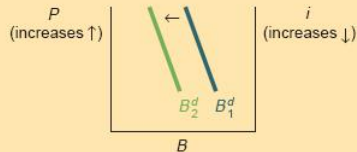
↓



Expected inflation

↑

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Changes on the Supply Side of the Bond Market

What are the factors changing supply for bonds?

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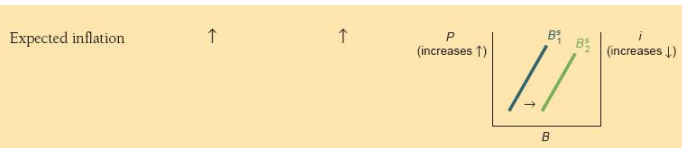
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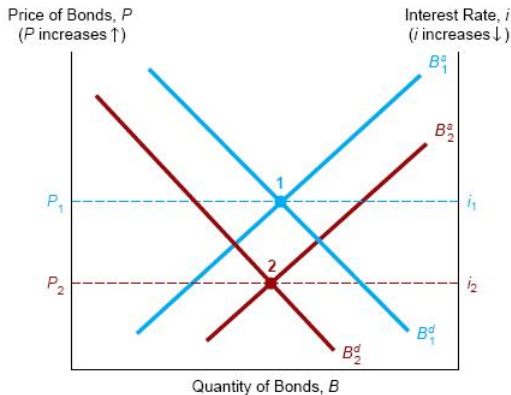


Expected Inflation and Equilibrium Interest Rate

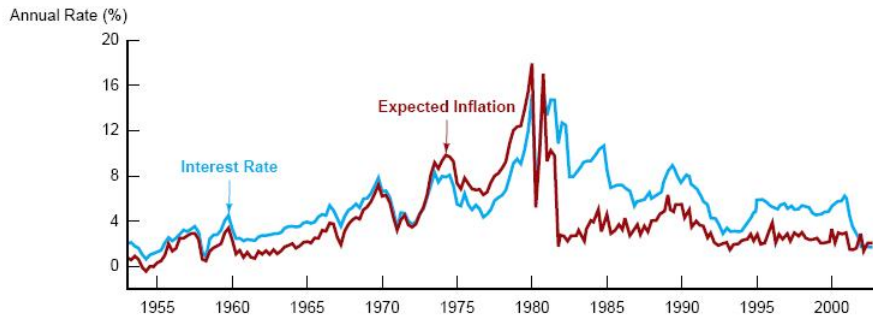
The Fisher Effect

Expected Inflation and Equilibrium Interest Rate

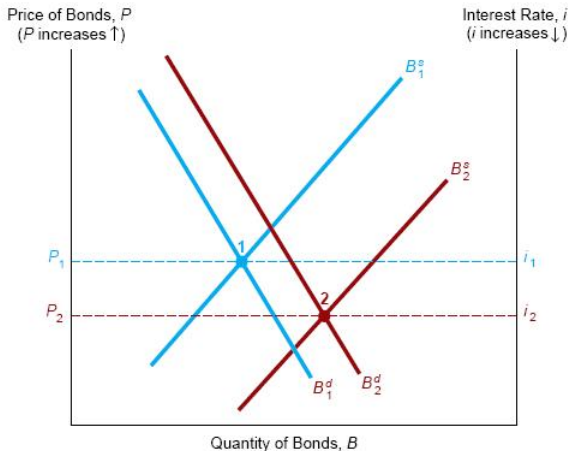
The Fisher Effect



The Fisher Effect: Illustration based on US data



Business Cycles and Equilibrium Interest Rate



Business Cycles and Equilibrium Interest Rate

An Illustration based on US data

