





6. Suppose the Fed makes an open market purchase of bonds. Describe and illustrate the impact on the market for money. What is the equilibrium impact on the federal funds rate?
7. Suppose people expect government deficits to continue to grow, leading to growing national debt. If this becomes true, describe and illustrate the impact on the market for bonds. What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?
8. Suppose people expect government deficits to continue to grow, leading to growing national debt, and so they expect the change in bond prices and interest rates that you illustrated in #7. What impact does this *expectation for future bond prices* have on the market for bonds today? What is the equilibrium impact on the price of bonds, the interest rate on bonds, and the quantity of trading?