In the short-term market, yields on 3-month Treasury bills worked up from 2.35 percent in 1961 to 3.80 percent in June 1965, to 4.61 in April 1966, and to 5.36 percent in September. Quotations on prime 4- to 6-month commercial paper followed a similar course.

The higher interest rates were reflected in price declines for many capital assets. A rise in rates means lower prices on existing bonds and preferred stocks. A rise in rates also tends to push down the present value of a given expected return from real estate and common stocks.

Interest rates on market instruments rose more rapidly in 1965 and 1966 than did rates paid by financial intermediaries. Market yields quickly reflect changed demand and supply conditions, while rates paid by commercial banks on time deposits and dividends paid on savings and loan shares are much more rigid. Frequent moves in the latter rates are practically impossible. Since reduction of institutional rates offends customers, there is a reluctance to raise rates until it becomes clear that the higher level might be maintained for a period. Financial intermediaries have a further reluctance to increase their interest costs because new rates apply to previously obtained funds as well as to new funds and resources of an intermediary are invested in previously purchased lower yielding assets.