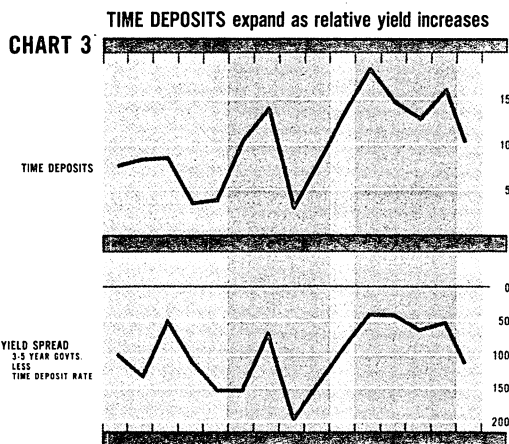


bonds exceeds the average effective rate paid on time and savings deposits. The higher the yield-spread line, the more attractive time deposits become; the lower the line, the less attractive they become.

Changes in the yield spread between time deposits and market securities may arise from changes in offering rates by banks or, alternatively, from wide cyclical movements in market rates on securities. A good example of the response of time deposit growth to cyclical variations in market rates is provided by the 1958 to 1960 period, when rates paid by banks on time deposits changed



Time deposits at all commercial banks. Effective rate on time deposits is ratio of interest paid on deposits during year to average level of time deposits during year. Figures for 1966 are for first half, effective rate on time deposits for the first half of 1966 is estimated.

slowly. In 1959 rate spreads moved substantially against time deposits, as interest rates on market securities rose to what were then record postwar levels, and time deposit growth showed a steep decline from the 1958 highs. Then in 1960 market rates dropped, and time deposit growth turned up again.

It is clear that these cyclical swings in time deposit growth were affected by monetary policy. Federal Reserve open market operations were influencing market interest rates and were inducing the public to switch between time deposits and market securities. Policy actions that changed the availability of bank credit were thus influencing time deposit growth as well as the growth of demand balances and the money stock.