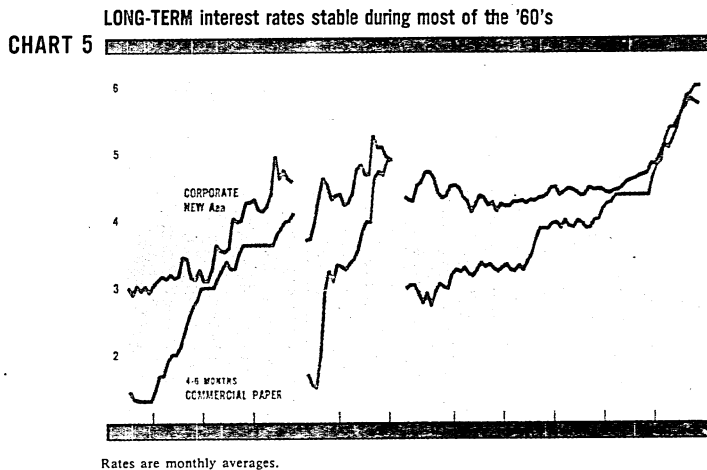


apparently found credit available on easy terms at banks and in the mortgage market, and they relied relatively little on security financing. The abundance of mortgage credit at low cost encouraged a marked expansion in the volume of multifamily and commercial construction and an attendant rise in mortgage borrowing by businesses during this period.

These changes in the structure of financial flows—increased bank purchases of long-term assets, large demand for mortgages by financial institutions, and reduced financing by businesses in the open market—influenced the structure of interest rates during the expansion of economic activity in the period from 1961



through 1965. Unlike developments in earlier expansion periods, long-term interest rates—represented in Chart 5 by the new-issue yield on high-grade corporate bonds—were on the whole stable or declining from early 1961 until the spring of 1965. On the other hand, yields on short-term instruments—represented by the rate on 4- to 6-month commercial paper—began to drift upward early in the expansion, but at a pace that was considerably slower than in earlier periods of economic expansion. With a gradual rise in short-term rates, there emerged a pattern of rate relationships between long- and short-term securities that was somewhat different from that of earlier expansions.

Thus, during the first 2 years of the current expansion, long-