Financial markets may already have responded in anticipation of changes that could be brought about by renewed legislative tax reform efforts. The major tax reform proposals incorporate a substantial reduction in marginal tax rates, which will reduce the taxes paid on interest income from corporate bonds and hence lessen the advantage of municipal over corporate bonds. The recent rise in the ratio of municipal to corporate interest rates may partly reflect these developments.

Because interest income on corporate bonds is taxable while interest income on municipal bonds generally is not, arbitrage pricing theory predicts that the after-tax rates of return on municipal and corporate bonds of similar risk, maturity and callability should be equal. Consequently, the ratio of the municipal to the corporate interest rate on comparable securities should equal one minus the expected future tax rate of the marginal investor.

In May 1986, the ratio of the municipal to the corporate Aaa interest rate was .829, up substantially from the February 1986 value of .769. Thus, the implied expected future tax rate fell from about 23 percent in February to about 17 percent in May 1986.

—Richard G. Sheehan
The adjusted monetary base is the sum of reserve accounts of financial institutions at Federal Reserve Banks, currency in circulation (currency held by the public and in the vaults of all depository institutions) and an adjustment for reserve requirement ratio changes. The major source of the adjusted monetary base is Federal Reserve credit. Data are computed by this bank. A detailed description of the adjusted monetary base is available from this bank.

Recent data are preliminary.

Adjusted Monetary Base
Compounded Annual Rates of Change,
Average of Two Maintenance Periods Ending:

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<tbody>
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</tr>
</tbody>
</table>

Prepared by Federal Reserve Bank of St. Louis
MONEY STOCK (M1)
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

BILLIONS OF DOLLARS

M1 is the sum of currency held by the nonbank public, demand deposits, other checkable deposits and travelers checks.

MONEY STOCK (M1)
COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

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<tr>
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<tbody>
<tr>
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<td></td>
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</table>

LATEST DATA PLOTTED WEEK ENDING: MAY 26, 1986
CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS* H.6 RELEASE.

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

Digitized for FRASER
http://fraser.stlouisfed.org
Federal Reserve Bank of St. Louis
MONEY MULTIPLIER
CURRENCY COMPONENT OF MONEY STOCK
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

<table>
<thead>
<tr>
<th></th>
<th>Ratio</th>
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<tr>
<td>Mar.</td>
<td>2.850</td>
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<tr>
<td>Apr.</td>
<td>2.872</td>
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<tr>
<td>May</td>
<td>2.886</td>
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LATEST DATA PLOTTED TWO WEEKS ENDING: MAY 26, 1986

BILLYIONS OF DOLLARS

COMPOUNDED ANNUAL RATES
OF CHANGE, AVERAGE OF
THE FOUR WEEKS ENDING:
MAY 26, 1986 FROM
THE FOUR WEEKS ENDING:
MAR. 24, 1986 7.2
FEB. 24, 1986 6.9
JAN. 27, 1986 6.7
DEC. 23, 1985 7.3
NOV. 25, 1985 7.3
AUG. 26, 1985 7.3
MAY 27, 1985 7.7

LATEST DATA PLOTTED WEEK ENDING: MAY 26, 1986
1/ RATIO OF MONEY STOCK (M1) TO ADJUSTED MONETARY BASE
2/ CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.6 RELEASE.

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
TOTAL CHECKABLE DEPOSITS
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

BILLIONS OF DOLLARS

1986 BILLSNOS

- APR. 21 464.8
- 28 467.3
- MAY 12 473.2
- 19 474.4
- 26 476.9

LATEST DATA PLOTTED WEEK ENDING: MAY 26, 1986
TOTAL CHECKABLE DEPOSITS IS THE SUM OF DEMAND DEPOSITS AND OTHER CHECKABLE DEPOSITS AT ALL DEPOSITORY INSTITUTIONS.

TOTAL CHECKABLE DEPOSITS
COMPOUNDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:
TO THE AVERAGE OF FOUR WEEKS ENDING:

<table>
<thead>
<tr>
<th>Date</th>
<th>Rate 1</th>
<th>Rate 2</th>
<th>Rate 3</th>
<th>Rate 4</th>
<th>Rate 5</th>
<th>Rate 6</th>
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<td>14.7</td>
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<td>14.4</td>
<td>18.6</td>
<td>25.1</td>
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PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
YIELDS ON SELECTED SECURITIES
AVERAGES OF DAILY RATES

CORPORATE Aaa BONDS
PRIME BANK LOAN RATE
MUNICIPAL BONDS
COMMERCIAL PAPER

LATEST DATA PLOTTED ARE AVERAGES OF RATES AVAILABLE FOR THE WEEK ENDING JUNE 6, 1986.

<table>
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<tr>
<th>1986</th>
<th>90-DAY CD'S</th>
<th>30-DAY COMMERCIAL PAPER</th>
<th>90-DAY BANKERS' ACCEPTANCES</th>
<th>CORPORATE Aaa BONDS</th>
<th>CORPORATE Baa BONDS</th>
<th>MUNICIPAL BONDS</th>
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<td>7.33</td>
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<td>6.66</td>
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<td>8.98</td>
<td>10.16</td>
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<td>30</td>
<td>6.75</td>
<td>6.76</td>
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<td>9.12</td>
<td>10.29</td>
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<td>JUNE 5</td>
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<td>6.63</td>
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<tr>
<td>27</td>
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</table>

NOTE: CURRENT DATA APPEAR IN THE BOARD OF GOVERNORS' H.15 RELEASE.
AVERAGES OF RATES AVAILABLE
BOND BUYER'S AVERAGE INDEX OF 20 MUNICIPAL BONDS, THURSDAY DATA
N.A. - NOT AVAILABLE

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
### Selected Interest Rates

**Averages of Daily Rates**

<table>
<thead>
<tr>
<th>Date</th>
<th>Federal Funds</th>
<th>3-Month Treasury</th>
<th>6-Month Treasury</th>
<th>1-Year Treasury</th>
<th>5-Year Treasury</th>
<th>Long-Term Treasury</th>
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<td>5.68</td>
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<tr>
<td>MAY</td>
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<td>2</td>
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</table>

**Note:** Current data appear in the Board of Governors' H.15 release excluding long-term Treasury securities which are computed by this bank. Treasury bill yields are on a discount basis.

Seven-day averages for week ending two days earlier than date shown.

Auction average (discount)

Prepared by Federal Reserve Bank of St. Louis

Latest data plotted are averages of rates available for the week ending June 6, 1986.
COMMERCIAL BANK
SMALL TIME DEPOSITS 1/
LARGE TIME DEPOSITS 2/
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

1986 BILLIONS
APR. 21 387.8
  28 387.5
MAY  5 386.5
12 385.5
19 384.6
26 383.5

LATEST DATA PLOTTED WEEK ENDING: MAY 26, 1986

1/ TIME DEPOSITS ISSUED IN DENOMINATIONS OF LESS THAN $100,000
2/ TIME DEPOSITS ISSUED IN DENOMINATIONS OF $100,000 OR MORE

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
COMMERCIAL BANK
TOTAL TIME DEPOSITS
AVERAGES OF DAILY FIGURES
SEASONALLY ADJUSTED

BILLIONS OF DOLLARS

1986
BILLIONS

1985

LATEST DATA PLOTTED WEEK ENDING: MAY 26, 1986
TOTAL TIME IS THE SUM OF SAVINGS DEPOSITS, SMALL TIME DEPOSITS AND LARGE TIME DEPOSITS.

TOTAL TIME DEPOSITS

COMPONDED ANNUAL RATES OF CHANGE, AVERAGE OF FOUR WEEKS ENDING:

TO THE AVERAGE
OF FOUR WEEKS
ENDING:

10/28/85 0.5 4.9
11/25/85 1.2 5.1 5.4
12/23/85 1.8 8.3 10.7 13.4
1/27/86 4.2 8.2 10.0 11.7 14.4
2/24/86 4.6 6.3 7.0 7.4 8.0 1.1
3/24/86 3.6 3.5 5.6 5.7 5.7 0.7 -2.3
4/26/86 3.2 3.2 5.6 5.7 -1.7 -4.5 -4.2
5/26/86 2.2 3.8 3.5 3.3 2.8 1.7 4.5

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS
BORROWINGS FROM FEDERAL RESERVE BANKS

BILLIONS OF DOLLARS

AVERAGES OF DAILY FIGURES

BILLIONS OF DOLLARS

1986 MILLIONS

APR. 30 1057
MAY 7 925
JUN. 4 852

ISSN MILLIONS

30 1057
21 848
26 800

TOTAL BORROWINGS

1/ 83.767 FOR 11/27/85

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS

LATEST DATA PLOTTED WEEK ENDING: JUNE 4, 1986
COMMERCIAL PAPER OF NONFINANCIAL COMPANIES

BILLIONS OF DOLLARS
NOT SEASONALLY ADJUSTED

BILLIONS OF DOLLARS

1986 MILLIONS

APR. 23 80,108
30 78,520
MAY 14 82,102
21 82,140
28 80,504

LATEST DATA PLOTTED WEEK ENDING: MAY 28, 1986

BUSINESS LOANS 
COMMERCIAL AND INDUSTRIAL
WEEKLY REPORTING LARGE COMMERCIAL BANKS
SEASONALLY ADJUSTED BY THIS BANK

BILLIONS OF DOLLARS

COMPOUNDED ANNUAL RATES
OF CHANGE, AVERAGE OF
THE FOUR WEEKS ENDING
MAY 21, 1986 FROM
THE FOUR WEEKS ENDING:
MAY 22, 1985

MAR. 19, 1986 2.0
FEB. 19, 1986 6.8
JAN. 22, 1986 5.0
DEC. 18, 1985 6.4
NOV. 20, 1985 6.0
AUG. 21, 1985 4.0
MAY 22, 1985 2.2

1986 MILLIONS

APR. 15 261,800
23 259,400
30 259,261
MAY 7 260,993
14 262,101
21 260,899

LATEST DATA PLOTTED WEEK ENDING: MAY 21, 1986

1/ BUSINESS LOANS INCLUDE BANKERS' ACCEPTANCES AND COMMERCIAL PAPER.
2/ BANKS WITH DOMESTIC ASSETS GREATER THAN $1.4 BILLION

PREPARED BY FEDERAL RESERVE BANK OF ST. LOUIS