Assets	Liabilities

Assume the Fed is presently holding 100b in Bonds

Bank Reserves

100b

Bank A has Deposits 250

Bank B has Deposits 100

Bank C has Deposits 150

Bank D has Deposits 300

Bank E has Deposits 200

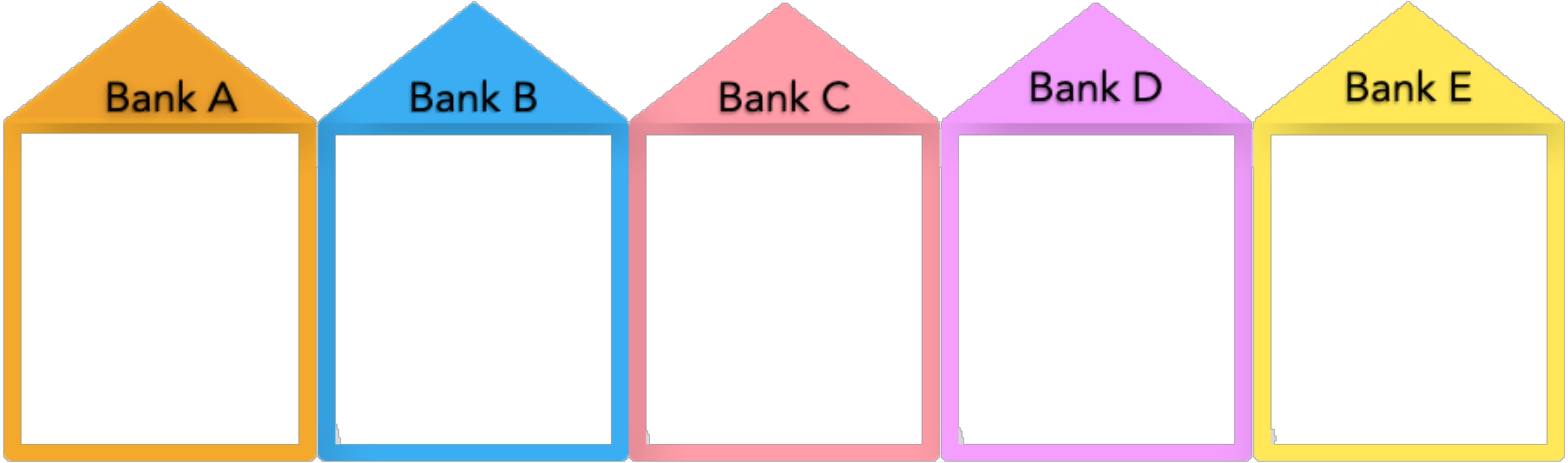
$$R_A = 0.1 \times 250 = 25b$$

$$R_B = 0.1 \times 100 = 10b$$

$$R_C = 0.1 \times 150 = 15b$$

$$R_D = 0.1 \times 300 = 30b$$

$$R_E = 0.1 \times 200 = 20b$$


Bank A
Bank B
Bank C
Bank D
Bank E

Total Reserves = 100b

Bond holders

Sell 10b in bonds to the Fed

The Fed now holds 110b in Bonds


UNITED STATES SAVINGS BOND
1000
THE UNITED STATES OF AMERICA
ONE THOUSAND DOLLARS
SERIES EE

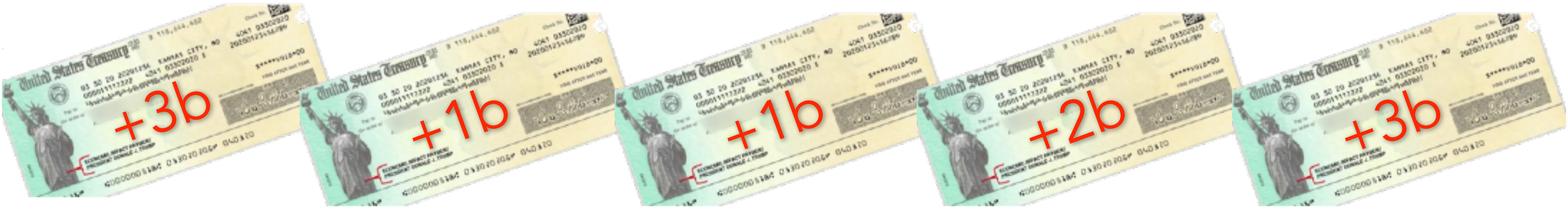

UNITED STATES SAVINGS BOND
1000
THE UNITED STATES OF AMERICA
ONE THOUSAND DOLLARS
SERIES EE
M00000000000EE

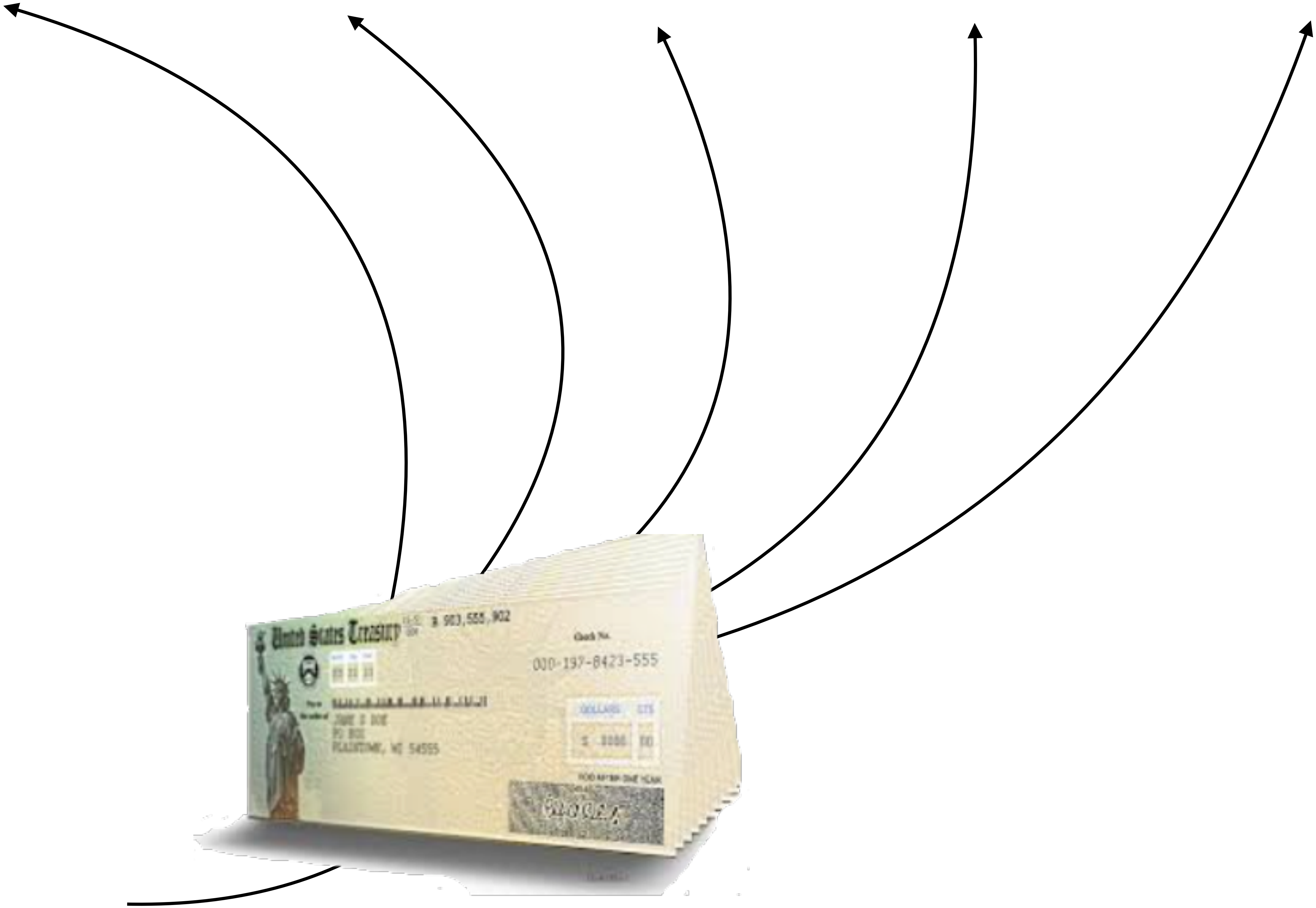
Bond holders

Fed pays $10b to Bond sellers


United States Treasury
Check No.
000-197-8423-555
DOLLARS
CTS

Banks send these checks to the Fed for clearing


+3b
+1b
+1b
+2b
+3b



Public deposits these checks into their banks

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+1b

+1b

+2b

+3b

and destroys the checks

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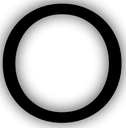

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Where did the Fed get the money to pay for these bonds?

Nowhere! The money is simply ***created*** by changing a computer entry that reads how many reserves each bank has

28b

11b

16b

32b

23b

Total Reserves =110b

W

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The Fed Buys Bonds in the Open Market

The Fed "pays" these checks by increasing the bank's reserves by the amount of the check

The Fed Buys Bonds in the Open Market

Assets	Liabilities
	Bank Reserves

The Fed now holds 110b in Bonds

Nowhere! The money is simply ***created*** by changing a computer entry that reads how many reserves each bank has

28b

11b

16b

32b

23b

Total Reserves =110b

When the Fed buys 10b in bonds, the Fed creates 10b in new money and bank Reserves increase by 10b

Banks send these checks to the Fed for clearing

Bank A	Bank B	Bank C	Bank D	Bank E
Bank A has Deposits 250	Bank B has Deposits 100	Bank C has Deposits 150	Bank D has Deposits 300	Bank E has Deposits 200

The Fed "pays" these checks by increasing the bank's reserves by the amount of the check

and destroys the checks

Public deposits these checks into their banks