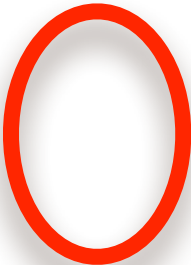


Banks then **must** decrease **lending** to increase their reserves





When the Fed **sells** bonds it **disappears** money by **reducing** bank reserves

When the Fed **sells** 20b in bonds, it disappears

$$20b: \Delta R = -20b$$

$r = 10\%$

When the Fed sells 20b in bonds, Banks reduce loans by 190

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$$\Delta D = \Delta R \times \frac{1}{r}$$

$$\Delta D = -20 \times \frac{1}{0.1}$$

$$\Delta D = -20 \times 10 = -200$$

$$\Delta L = -200 - 10 = -190$$

$$\Delta M^s = \Delta \text{Currency} + \Delta \text{Deposits}$$

$$\Delta M^s = 0 + (-2000) = -2000$$

When the Fed **sells** 20b in bonds, the Money Supply
decrease by 200b

When the Fed sells 20b in bonds, Deposits decrease by 200b



The Fed
destroyed 20b



Banks destroyed
an additional
190b

When the Fed **sells** bonds it **disappears** money by **reducing** bank reserves

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20b: $\Delta R = -20b$

Banks then **must** decrease **lending** to increase their reserves

$$\Delta D = \Delta R \times \left(\frac{1}{r} \right)$$

$$r = 10\%$$

$$\Delta D = -20 \times \frac{1}{0.1}$$

$$\Delta D = -20 \times 10 = -200$$

$$\Delta L = \Delta D - \Delta R$$

$$\Delta L = -200 - 10 = -190$$

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$$\Delta M^s = 0 + (-200) = -200$$



The Fed
destroyed 20b

Banks destroyed
an additional
190b

When the Fed **sells** 20b in bonds, **Deposits decrease** by 200b

When the Fed **sells** 20b in bonds, Banks **reduce loans** by 190

When the Fed **sells** 20b in bonds, the Money Supply
decrease by 200b

The Money Market