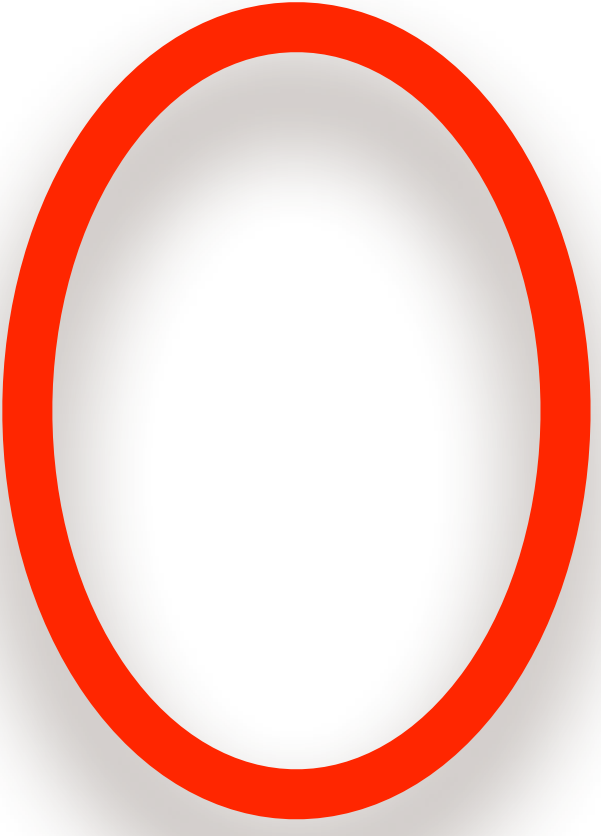
Banks then must decrease lending to increase their reserves


Money
Multiplier



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 180


ΔL = ΔD - ΔR

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

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

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

$$\Delta L = -200 - (-20) = -180$$

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

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

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
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The Money Market