

Assets

Liabilities

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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

$R_A = 0.1$

$\times 250 = 25b$

$$R_B = 0.1 \times 1000 = 100b$$

$R_c = 0.1 \times 150 = 15b$

$R_D = 0.1 \times 3000 = 300b$

RE=0.1

x2000=201b

Bank A



Bank B

Bank C

Bank D

Bank E

Total Reserves = 1000b

Bond holders



Sell 10b in bonds to the Fed



The Fed now
holds 110b in
Bonds





Bond holders



Fed **pays \$10b** to Bond sellers

United States Treasury

U.S. \$ 903,555,902



Check No.

000-197-8423-555

Pay to the order of

Payable to

JUNE 3 ONE

PO BOX

PLANTING, WJ 54555

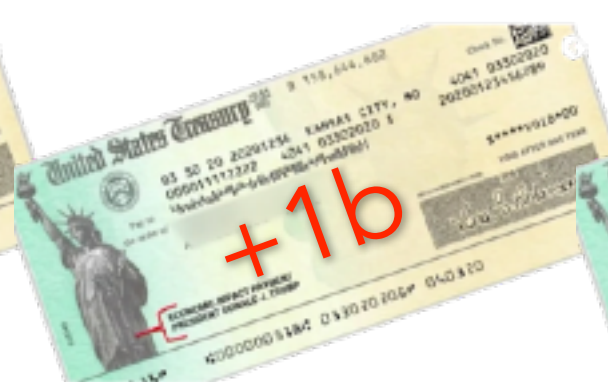
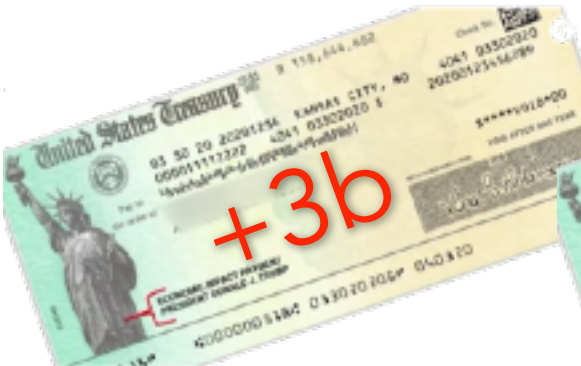
DOLLARS CTS

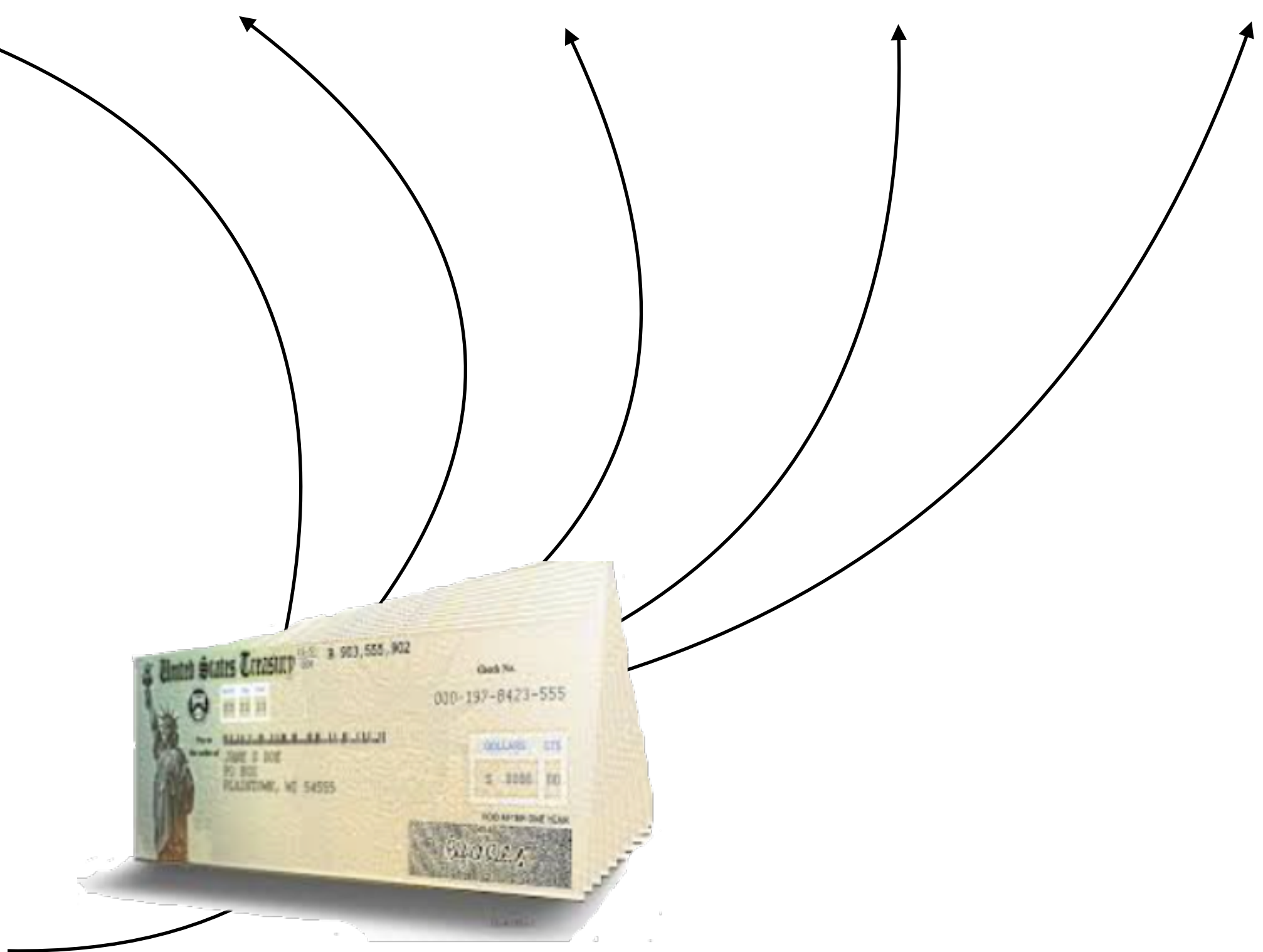
\$ 903,555 902

VOID AFTER ONE YEAR



Banks send these checks to the Fed for clearing





Public deposits these checks into their banks







F









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2

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9







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2







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+3b

+

1

b

+

1

b

+2b

+3b

and destroys the checks

+10b

10b

110b

T











B

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M

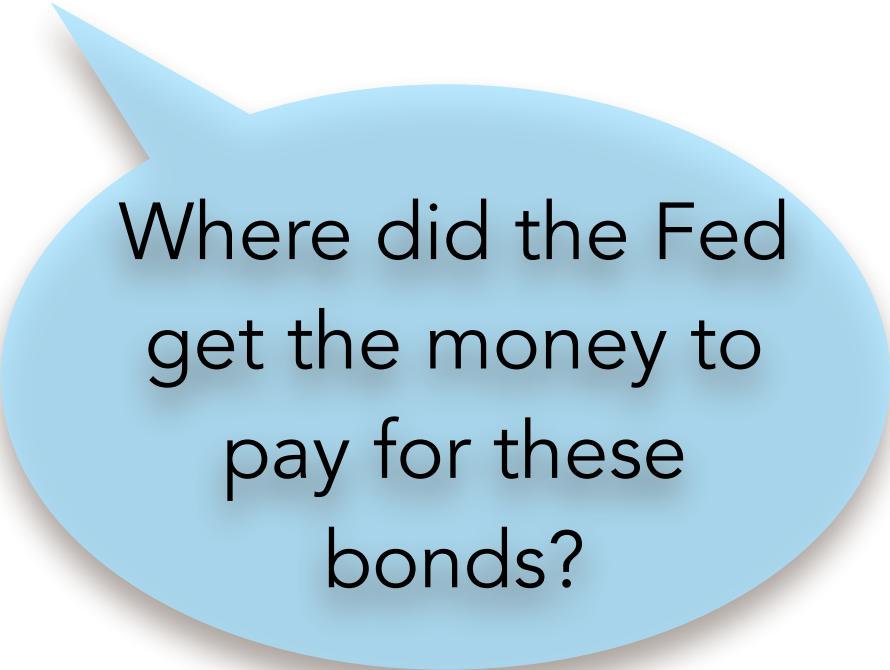
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Where did the Fed
get the money to
pay for these
bonds?

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

28b

1

1

b

16b

32b

23b

Total Reserves = 1100b

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3





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b

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

Banks send these checks to the Fed for clearing

Assets	Liabilities
 <p>The Fed now holds 110b in Bonds</p>	<p>Bank Reserves</p> <p>Nowhere! The money is simply created by changing a computer entry that reads how many reserves each bank has</p> <p>28b 11b 16b 32b 23b</p> <p>Total Reserves = 110b</p>

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

