| 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

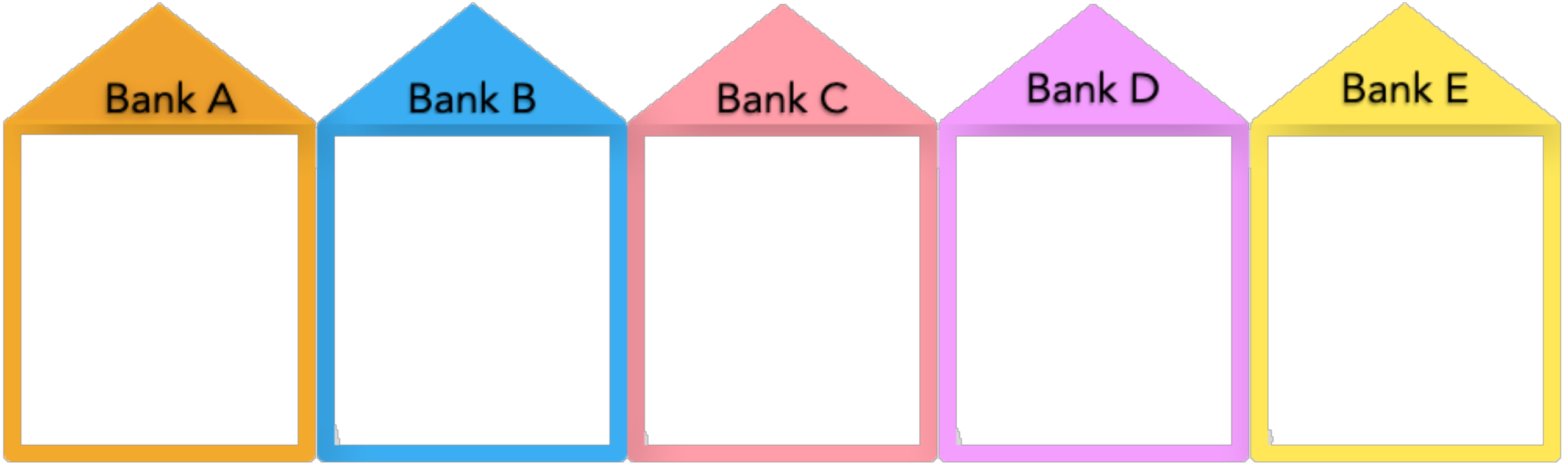
$$R_A = 0.1 \times 250 = 25b$$

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

$R_C = 0.1 \times 150 = 15\text{b}$

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

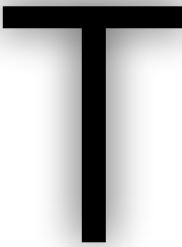
$$R_E = 0.1 \times 200 = 20b$$

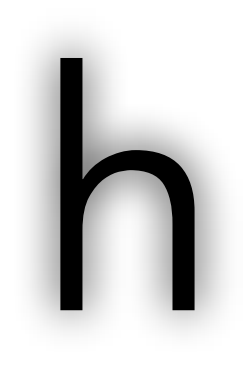

Bank A
Bank B
Bank C
Bank D
Bank E

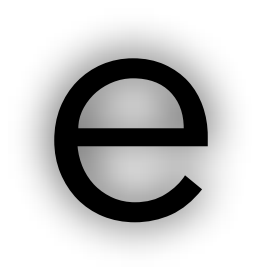
Total Reserves = 100b

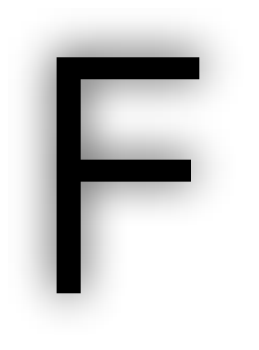

-6b
-2b
-2b
-4b
-6b

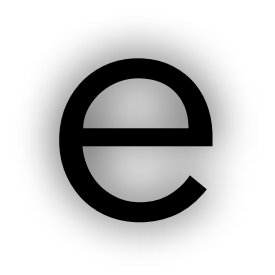
Public pays with checks drawn on their bank accounts

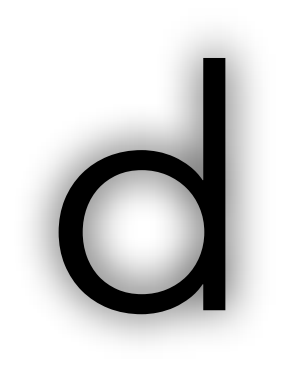


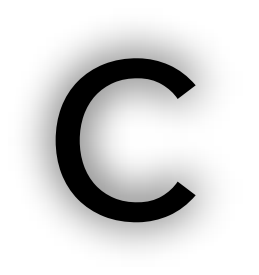








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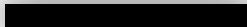

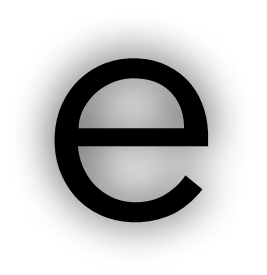

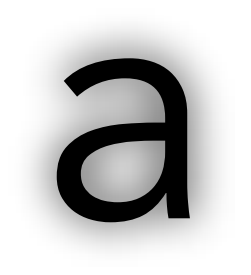
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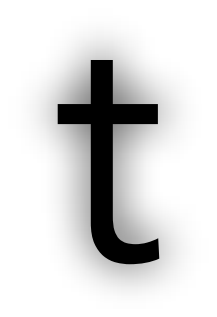

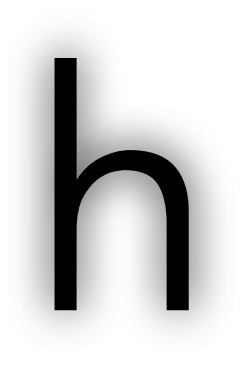

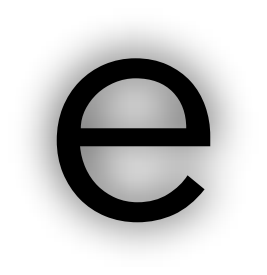

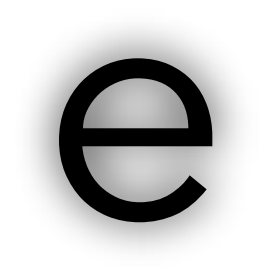

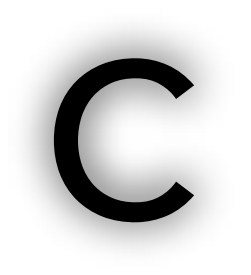
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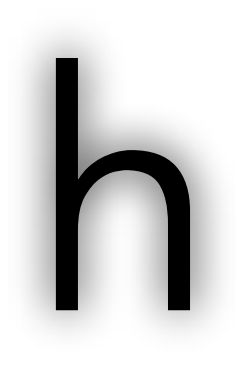

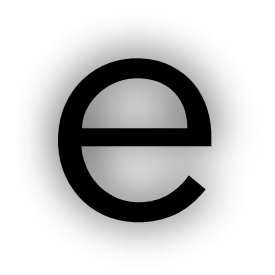

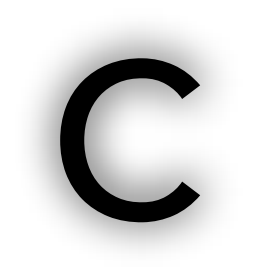
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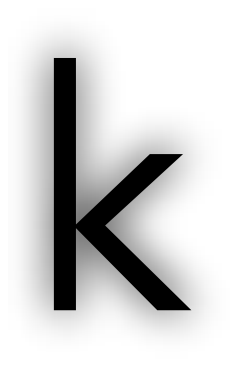

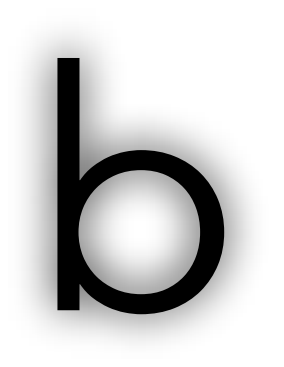

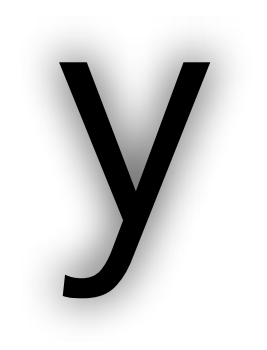
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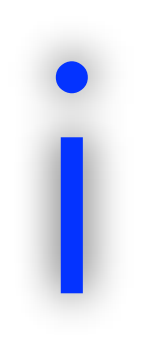

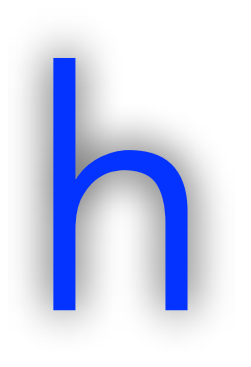

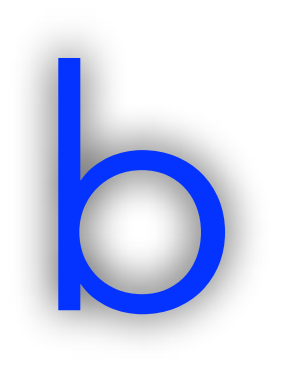


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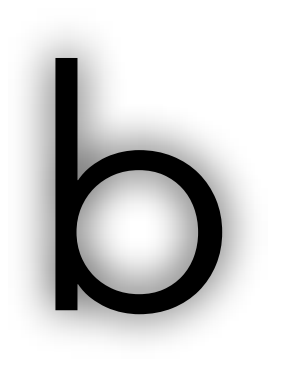

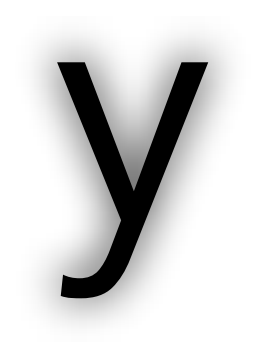
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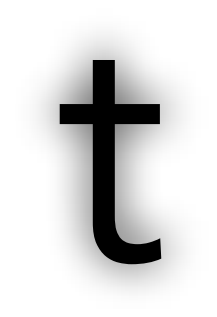

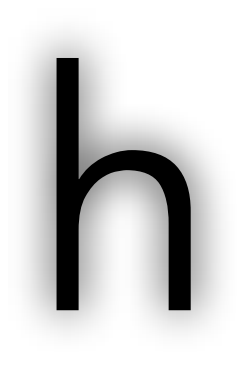
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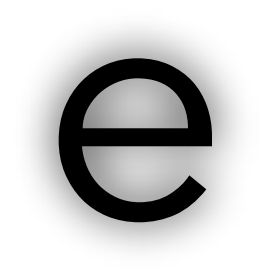

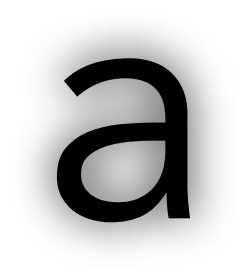
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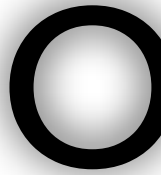
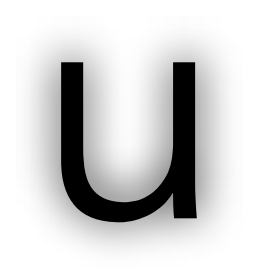
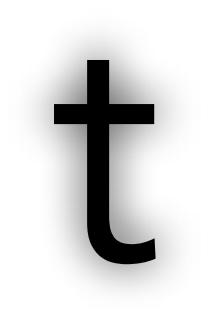
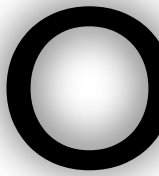
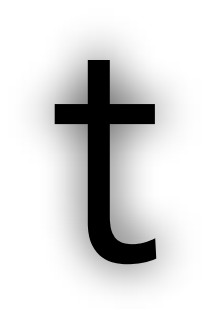
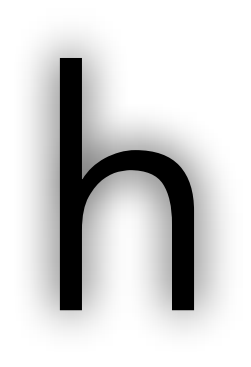


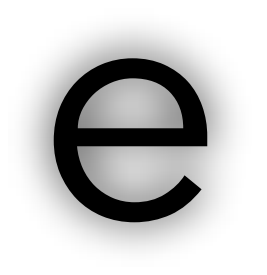


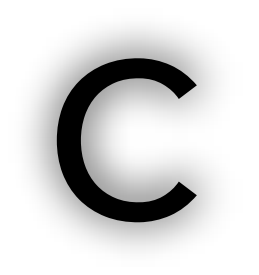


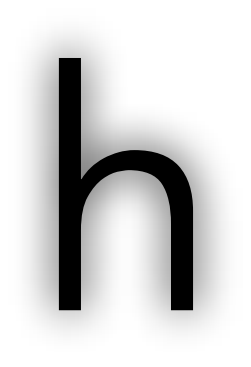


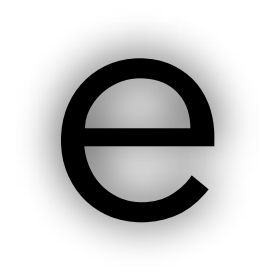


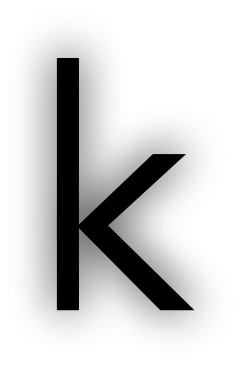













-6b


-2b


-2b

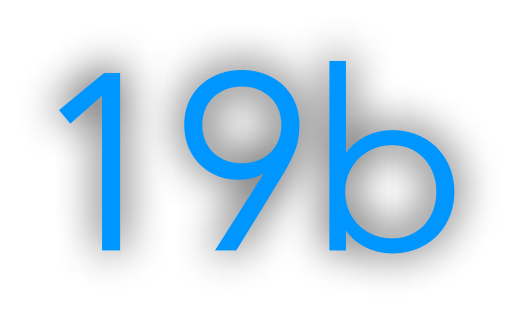

-4b


-6b


-20b

# The Fed Sells Bonds in the Open Market

The Fed ***disappeared*** money form the system by decreasing bank reserves


19b


8b

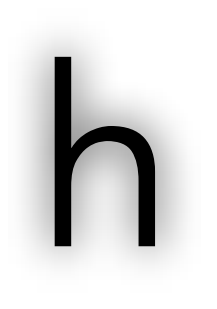
13b

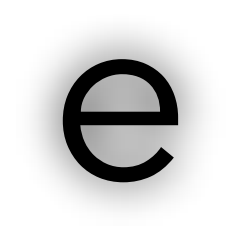

26b

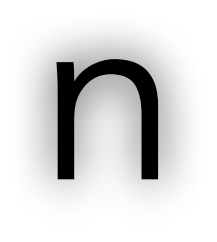
14b

Total Reserves =80b


W



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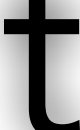

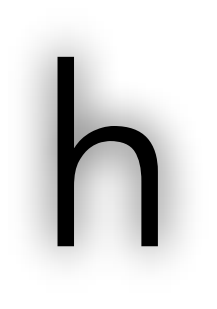
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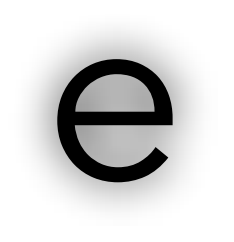

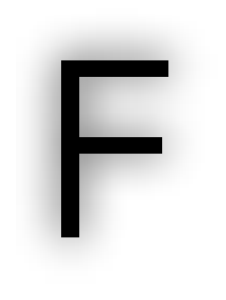

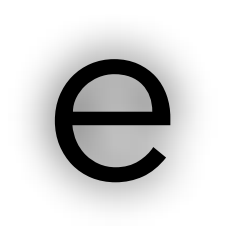


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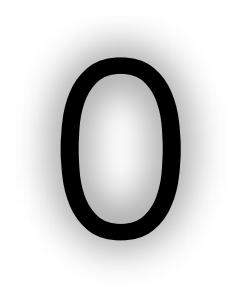

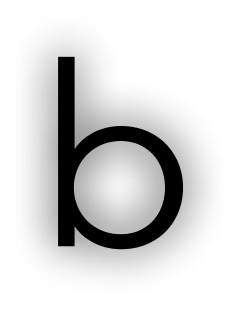

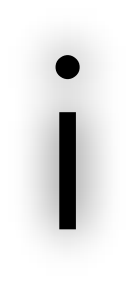

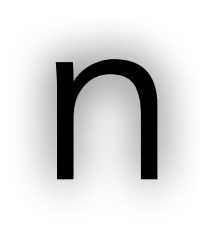
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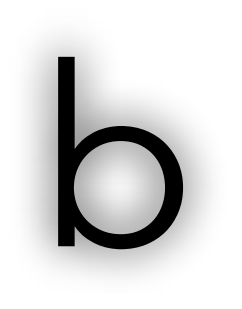

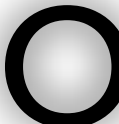


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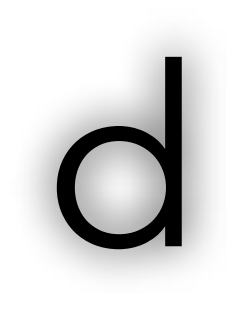

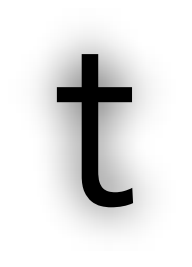

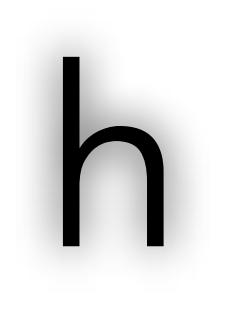
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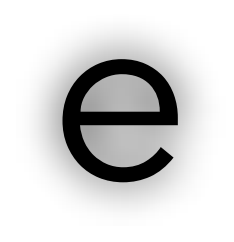

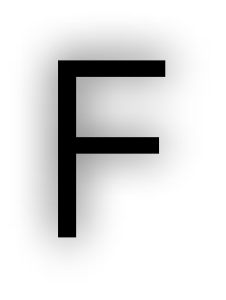

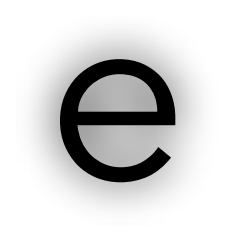

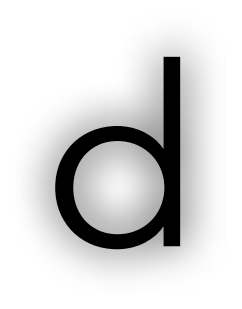

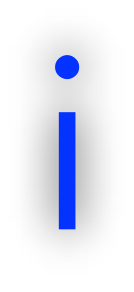


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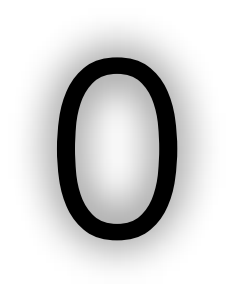

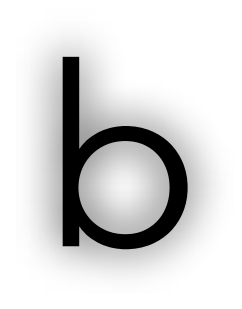

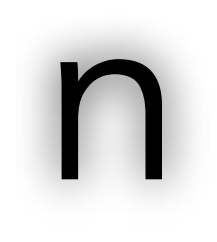
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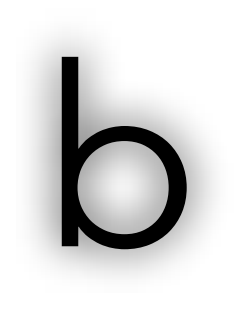


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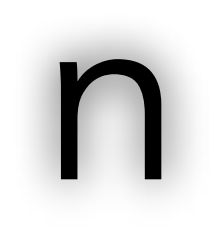
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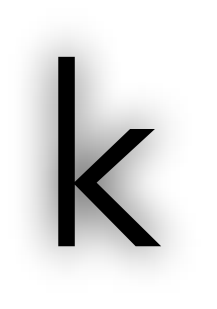

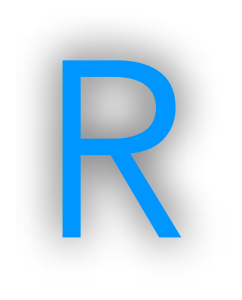
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# The Fed now holds 80b in Bonds

Fed sells 20b in bonds to the public


UNITED STATES SAVINGS BOND
1000
THE UNITED STATES OF AMERICA
ONE THOUSAND DOLLARS
SERIES EE
M00000000EE


20b

The Fed "clears" these checks by decreasing the bank's reserves by the amount of the check

# The Fed Sells Bonds in the Open Market

## Assets


The Fed now holds 80b in Bonds

## Liabilities

### Bank Reserves

The Fed ***disappeared*** money form the system by decreasing bank reserves

19b

8b

13b

26b

14b

Total Reserves =80b

When the Fed sells 20b in bonds, the Fed disappears 20b in bank Reserves

| 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 |

Public pays with checks drawn on their bank accounts

The Fed "clears" these checks by decreasing the bank's reserves by the amount of the check

To understand what happens next, we must take a closer look at the loan process