

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

$R_A = 0.1$

$\times 250 = 25b$

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

$R_c = 0.1 \times 150 = 15b$

$R_D = 0.1 \times 3000 = 300\text{b}$

RE=0.1

x2000=201b

Bank A



Bank B

Bank C

Bank D

Bank E

Total Reserves = 1000b



Public **pays** with checks drawn on
their bank accounts



T



















2



S









S













S

b

V











6

S





9







b

6











S





V



S



V







2





U

























- 6b

-2b

-2b

-4b

- 6b

-2016

The Fed Sells Bonds in the Open Market

The Fed
disappeared
money from the
system by
decreasing bank
reserves

19b

8b

13b

26b

14b

Total Reserves = 800b

W













F





S







A large, pixelated blue letter 'S' is centered on a white background. The letter is composed of many small blue squares, giving it a blocky, digital appearance. It is a standard uppercase 'S' with a slight curve at the top and bottom.





























F











6







6



S

2











9





R



S













The Fed now
holds 80b in
Bonds

Fed **sells 20b** in bonds to the public






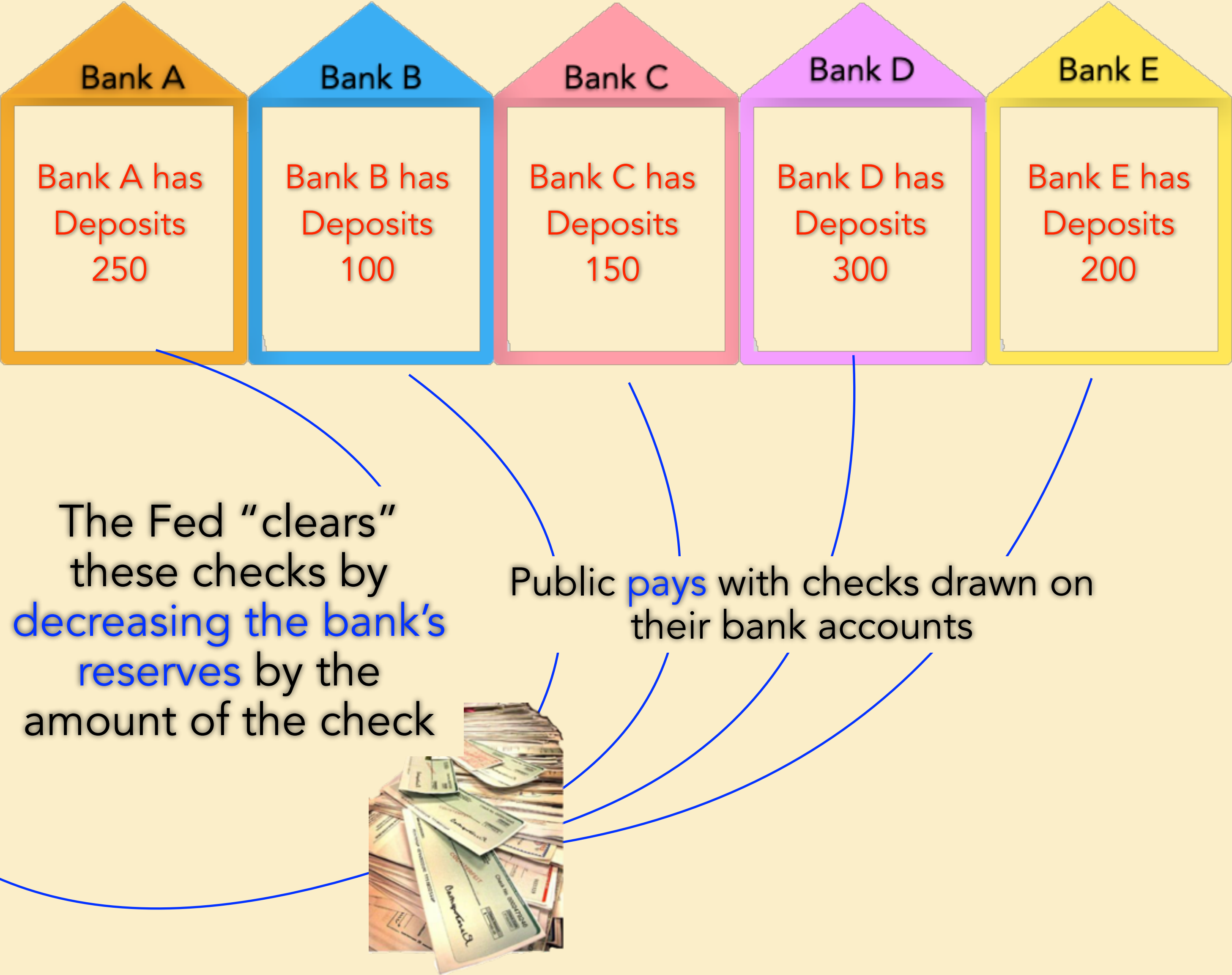
20b

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	Liabilities
 <p>The Fed now holds 80b in Bonds</p>	<p>Bank Reserves</p> <div><p>The Fed disappeared money from the system by decreasing bank reserves</p><p>19b 8b 13b 26b 14b</p><p>Total Reserves = 80b</p></div>

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



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

Bank A
 $r=10\%$

