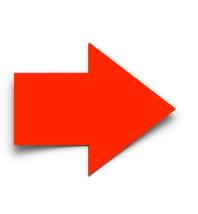




Monetary Policy Tools

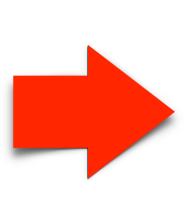
When the Fed Decrease the Discount Rate, banks borrow more from the Fed



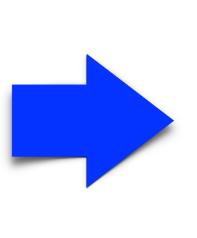
The Fed creates Money to make these loans

Reserves Increase Loans Increase

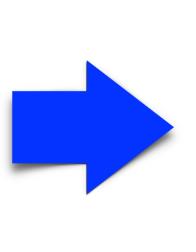
Deposits Increase
Money Supply Increase



When the Fed Increase the Discount Rate, the Fed makes fewer loans



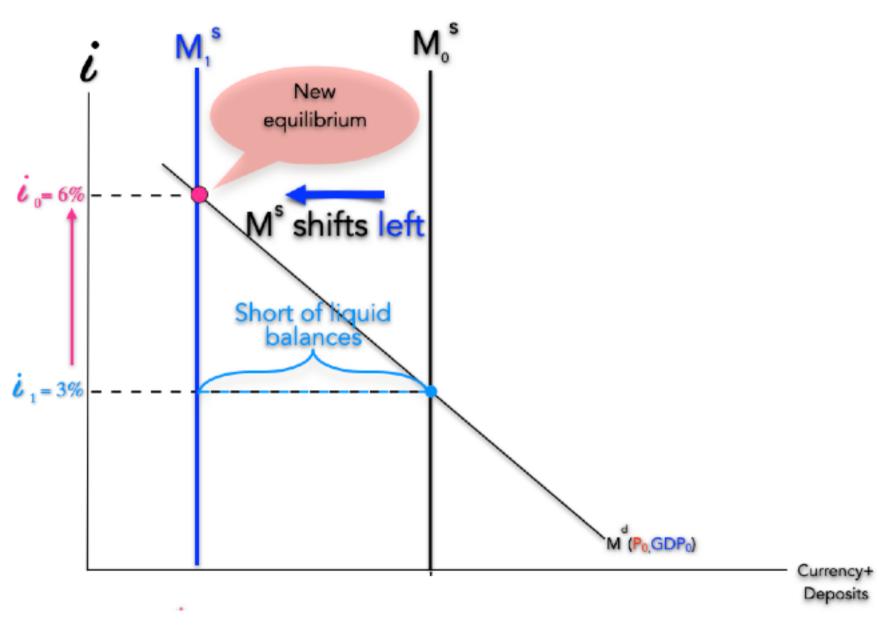
The Fed erases Reserves



Reserves Decrease Loans Decrease Deposits Decrease

Money Supply Decrease

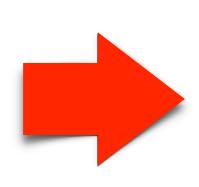
2. The Discount Rate: the interest rate the Fed charges on loans to banks



Monetary Policy Tools

2. The Discount Rate: the interest rate the Fed charges on loans to banks

When the Fed Decrease the Discount Rate, banks borrow more from the Fed



The Fed creates

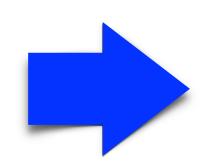
Money to make

these loans

these loans

When the Fed Increase
the Discount Rate, the

Fed makes fewer loans



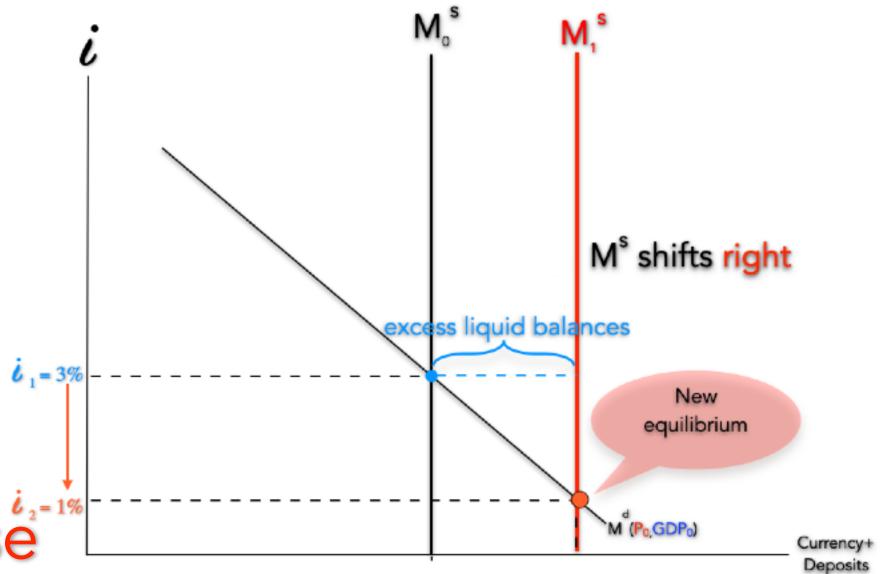
The Fed erases
Reserves

Reserves Increase

Loans Increase

Deposits Increase

Money Supply Increase



Reserves Decrease
Loans Decrease
Deposits Decrease
Money Supply Decrease

