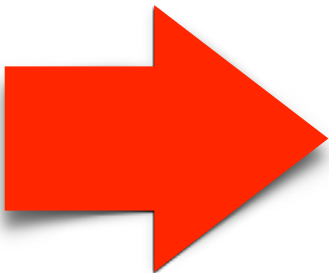


Monetary Policy Tools

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



The Fed creates

Money to make

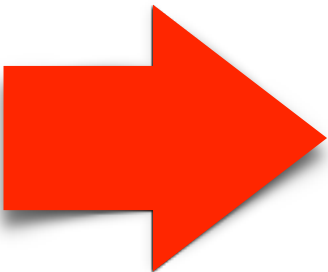
these loans

Reserves Increase

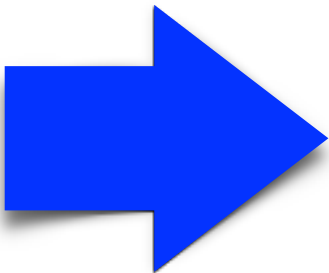
Loans Increase

Deposits Increase

Money Supply Increase

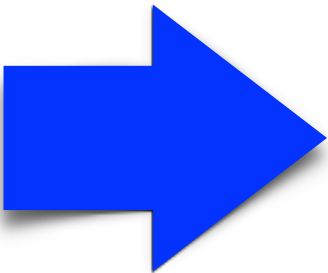


When the Fed **Increase**
the Discount Rate, the
Fed makes **fewer** loans



The Fed erases

Reserves



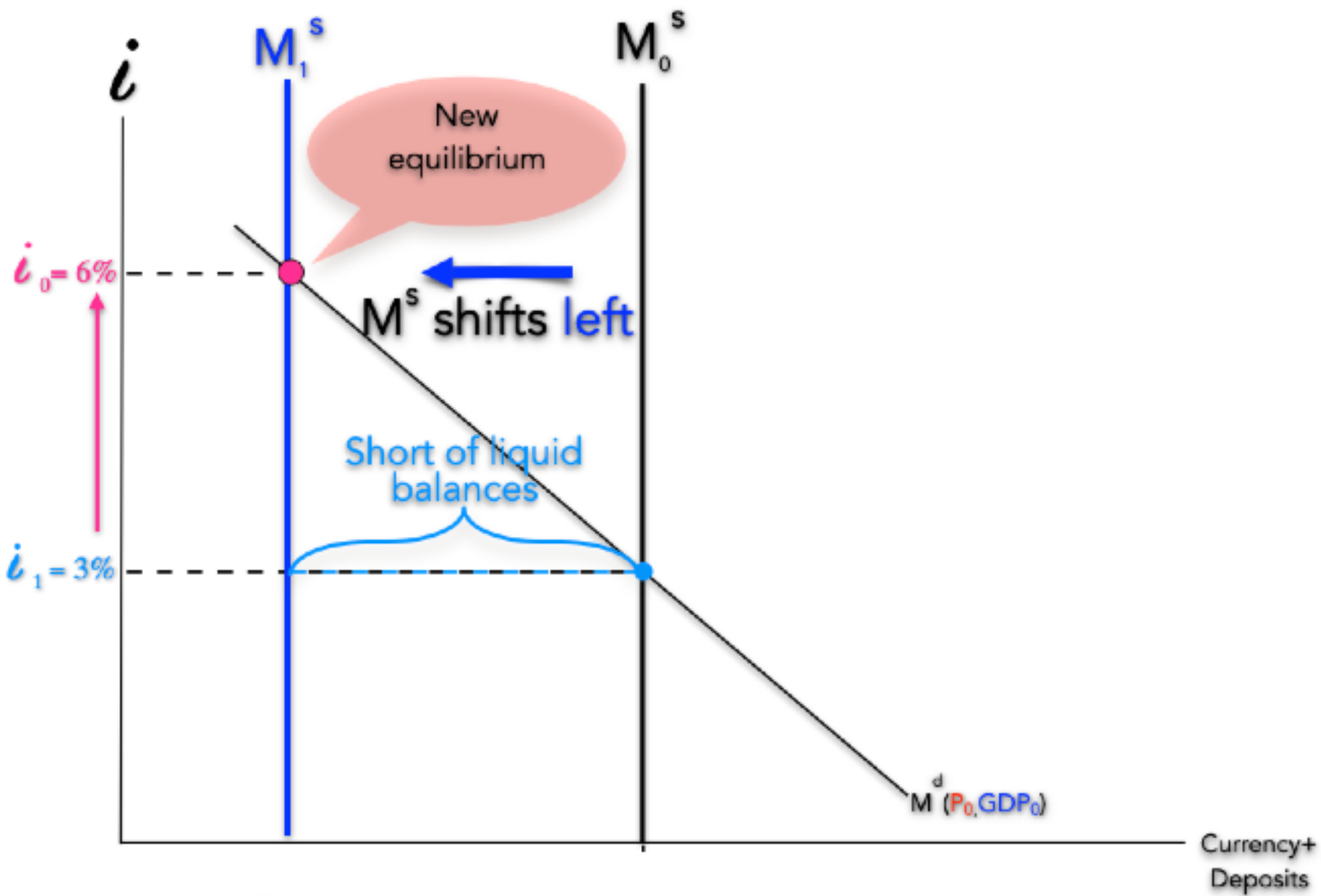
Reserves Decrease

Loans Decrease

Deposits Decrease

Money Supply Decrease

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



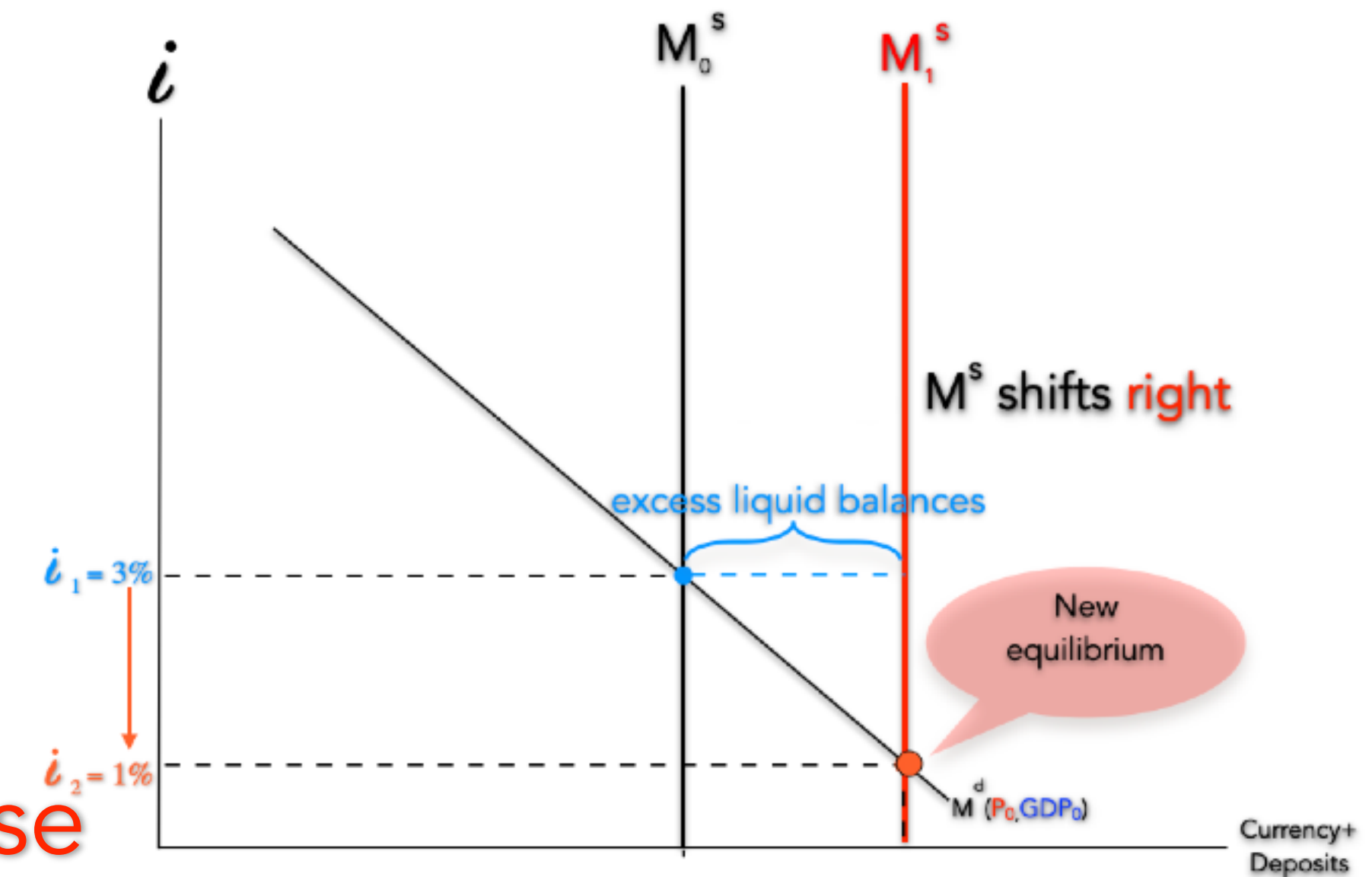
Monetary Policy Tools

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

➡ 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**

