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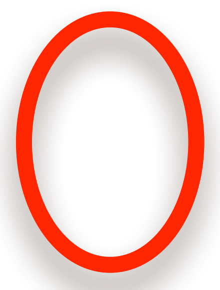
Money Multiplier



When the Fed sells bonds (QT) it disappears money by reducing bank reserves

When the Fed sells 20b in bonds, it disappears 20b in reserves:

$$\Delta R = -20b$$

$$r = 10\%$$

When the Fed sells 20b in bonds, Banks reduce loans by 180

$$\Delta L = \Delta D - \Delta R$$

$$\Delta D = \Delta R \times \frac{1}{r}$$

$$\Delta D = -20 \times \frac{1}{0.1}$$

$$\Delta D = -20 \times 10 = -200$$

$$\Delta L = -200 - (-20) = -180$$

$$\Delta M^{s} = \Delta \text{Currency} + \Delta \text{Deposits}$$

$$\Delta M^{s} = 0 + (-200) = -200$$

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The Money Market