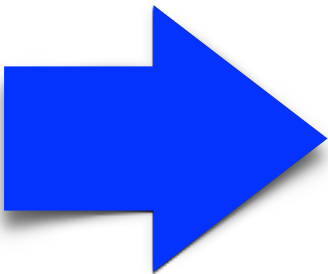


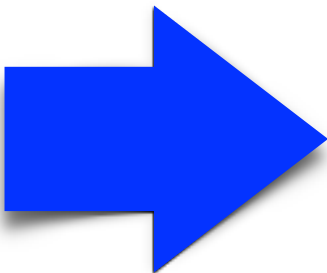
# Monetary Policy Tools

# 3. Required Reserves Ratio

When the Fed Increase  
the Required Reserves  
Ratio, more banks  
become Short of Reserves

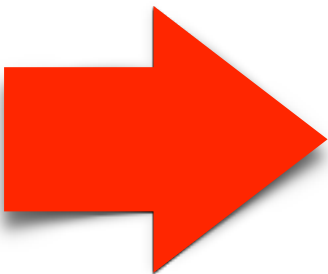


Banks must decrease  
loans outstanding to  
build up their reserves

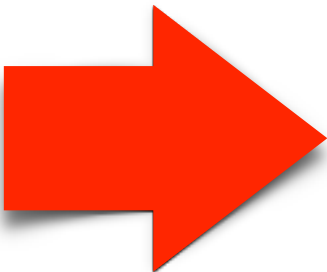




When the Fed Decrease  
the Required Reserves  
Ratio, more banks will  
have Excess Reserves



Banks will  
increase loans



Loans Decrease

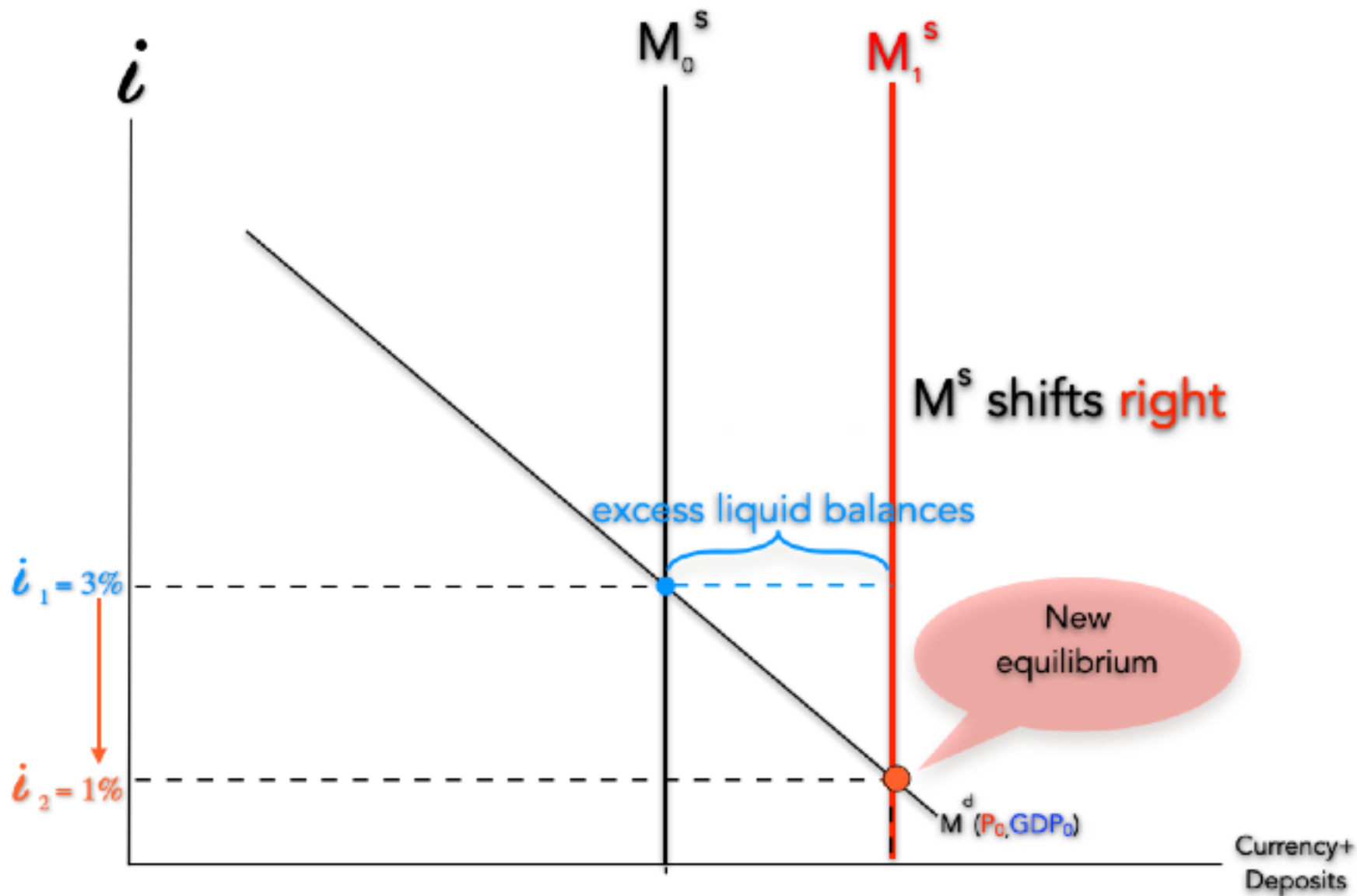
Deposits Decrease

Money Supply Decrease

Loans Increase

Deposits Increase

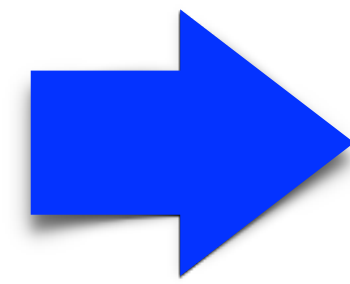
Money Supply Increase



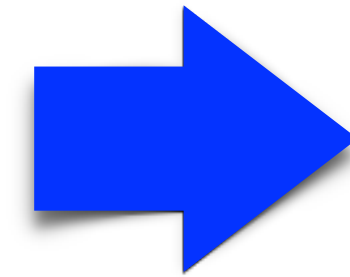
# Monetary Policy Tools

## 3. Required Reserves Ratio

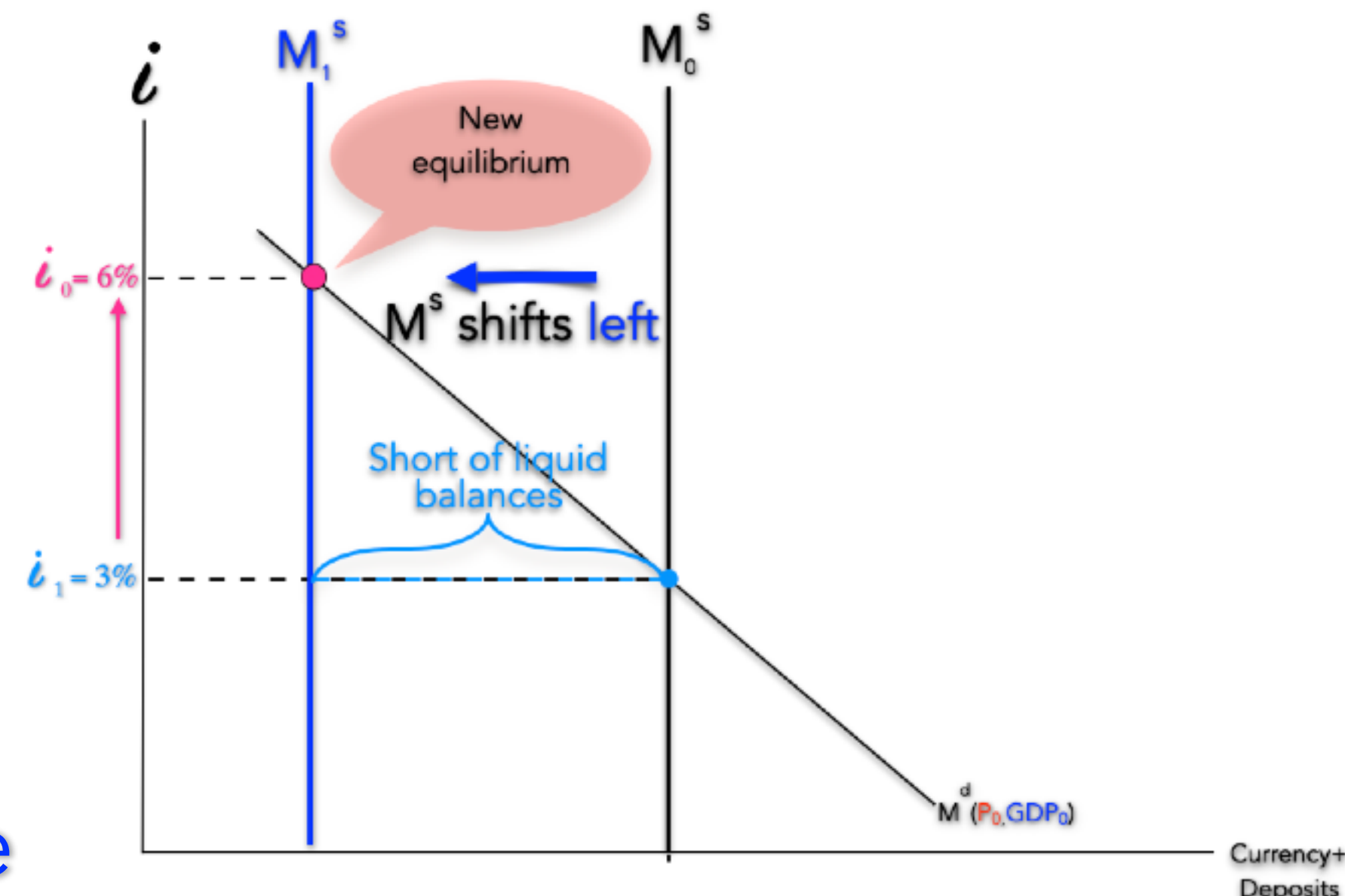
When the Fed **Increase** the Required Reserves Ratio, more banks become **Short of Reserves**



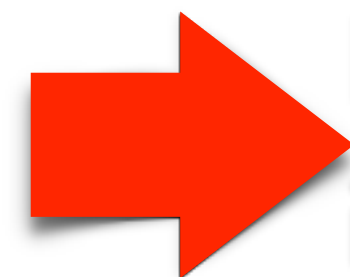
Banks must **decrease** loans outstanding to build up their reserves



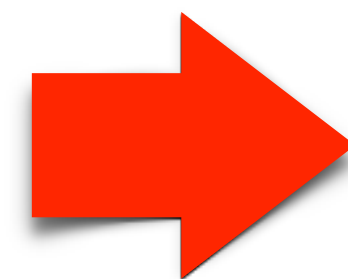
Loans **Decrease**  
Deposits **Decrease**  
Money Supply **Decrease**



When the Fed **Decrease** the Required Reserves Ratio, more banks will have **Excess Reserves**



Banks will **increase** loans



Loans **Increase**  
Deposits **Increase**  
Money Supply **Increase**

