

Assets

Liabilities

--	--



Assume the Fed is
presently holding
100b in Bonds

Bank Reserves

100b

$R_A = 0.1$

$\times 250 = 25b$

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

$R_c = 0.1 \times 150 = 15b$

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

RE=0.1

x2000=201b

Bank A

Bank A has
Deposits
250

Bank B

Bank B has
Deposits
100

Bank C

Bank C has
Deposits
150

Bank D

Bank D has
Deposits
300

Bank E

Bank E has
Deposits
200

Total Reserves = 1000b

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



T



















6



S









S













S

b

V



e





e

2

S





g

b

6





S



e

S

e



V

e

S



V







6





U

























- 6b

-2b

-2b

-4b

- 6b

-2016

The Fed Sells Bonds (Quantitative Tightening QT)

The Fed
disappeared
money from the
system by
decreasing bank
reserves

19b

8b

13b

26b

14b

Total Reserves = 800b

W W













F





S





S

2









b







S









F





o



S

2

P

P



2



S

2



b





b

2





R



S







e

S



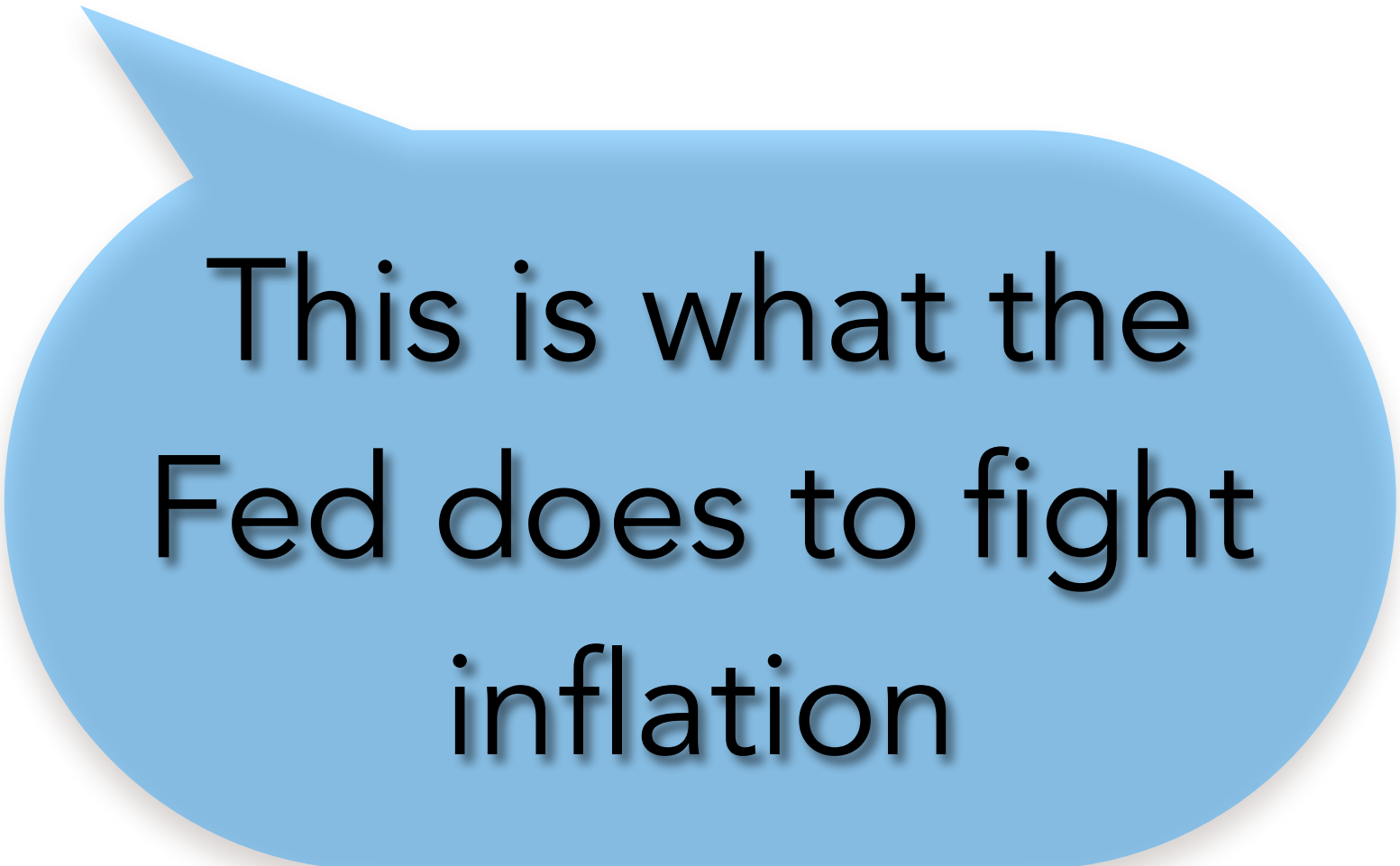
The Fed now
holds 80b in
Bonds

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





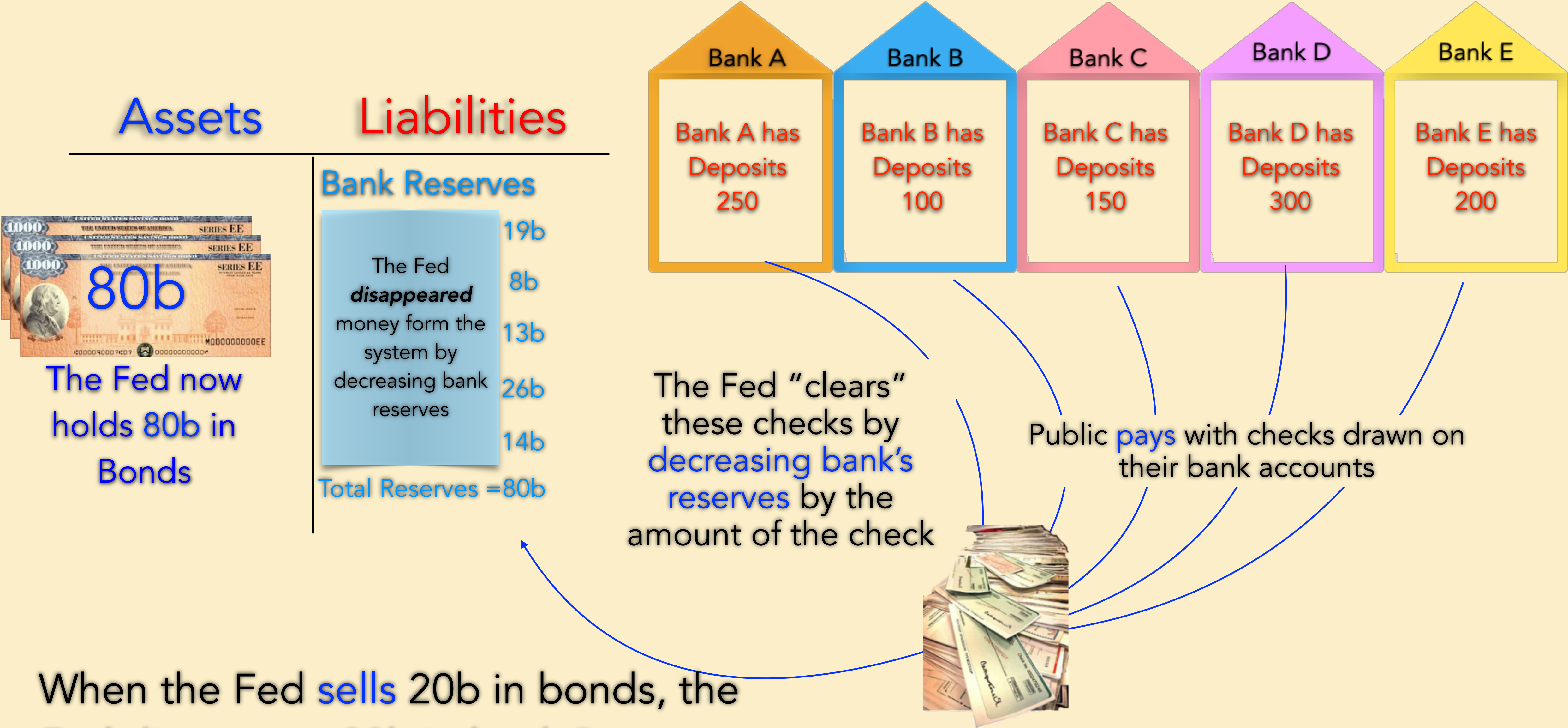
20b



This is what the
Fed does to fight
inflation

The Fed "clears"
these checks by
decreasing bank's
reserves by the
amount of the check

The Fed **Sells** Bonds (Quantitative **Tightening QT**)



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

