

Assets

Liabilities

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Assume the Fed is
presently holding
100b in Bonds

Bank Reserves

100b

$R_A = 0.1$

$\times 250 = 25b$

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

$R_c = 0.1 \times 150 = 15b$

$R_D = 0.1 \times 3000 = 300b$

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





V

e

S

b

V







6





U

























- 6b

-2b

-2b

-4b

- 6b

-2016

The Fed Sells Bonds in the Open Market (Quantitative Tightening QT)

The Fed
disappeared
money from the
system by
decreasing bank
reserves

19b

8b

13b

26b

14b

Total Reserves = 800b

W













F





S







A large, pixelated blue letter 'S' is centered on a white background. The letter is composed of many small blue squares, giving it a blocky, digital appearance. It is a standard uppercase 'S' with a slight curve at the top and bottom.





























F











6







6



A large, pixelated blue letter 'S' is centered on a white background. The letter is composed of a grid of blue pixels, giving it a blocky, digital appearance. The 'S' is formed by a continuous path of pixels that curves from the top left, around to the top right, then down and around to the bottom right, and finally back up to the bottom left, creating a classic 'S' shape. The edges of the letter are slightly irregular due to the pixelation.

2











9





R



S













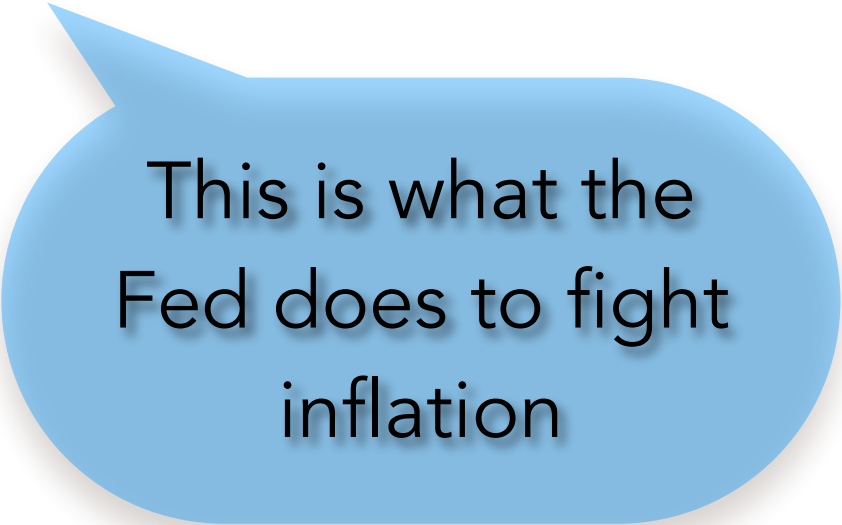
The Fed now
holds 80b in
Bonds

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





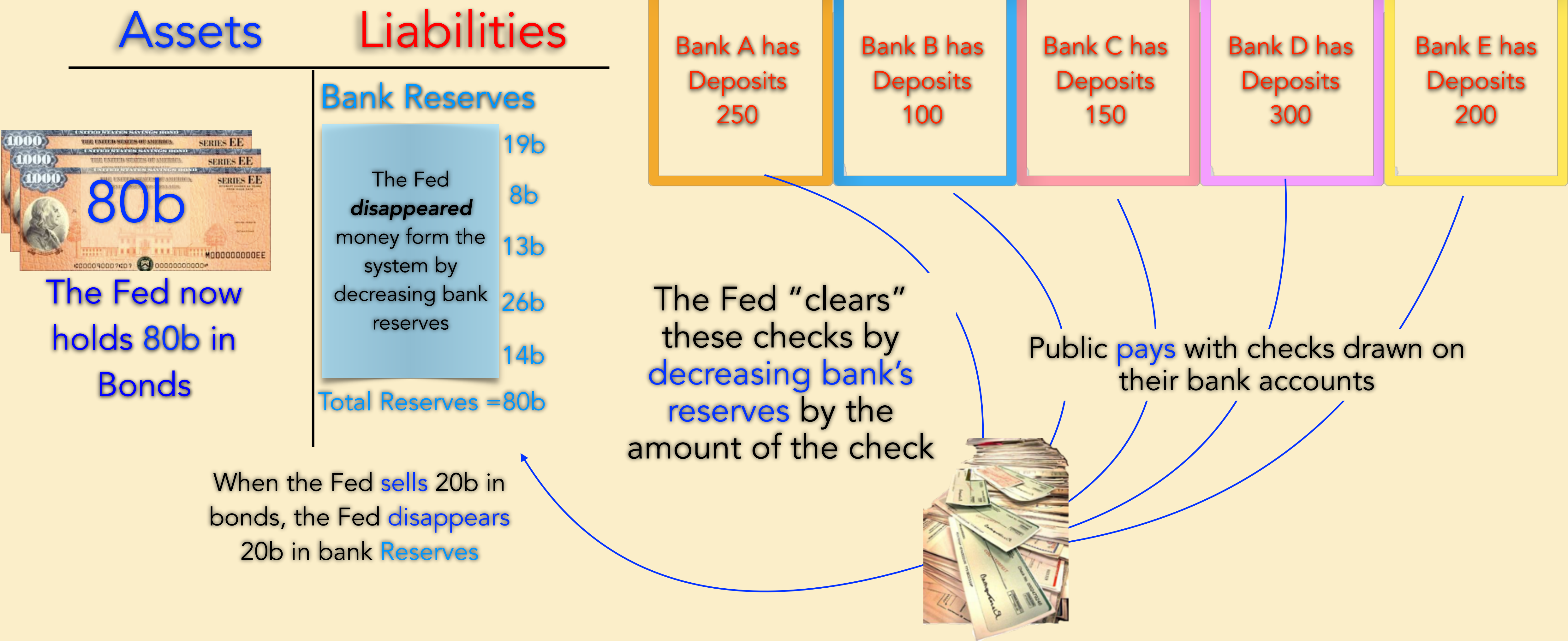
20b



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 in the Open Market (Quantitative **Tightening** QT)



When the Fed **sells** 20b in bonds, the Fed **disappears** 20b in bank **Reserves**

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

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

When the Fed **sells** 20b in bonds, the Fed **disappears** 20b in bank **Reserves**

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

Bank A
 $r=10\%$

