





# 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



K



S



e

S









e

S



**Y**









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



S



2











9







R



S















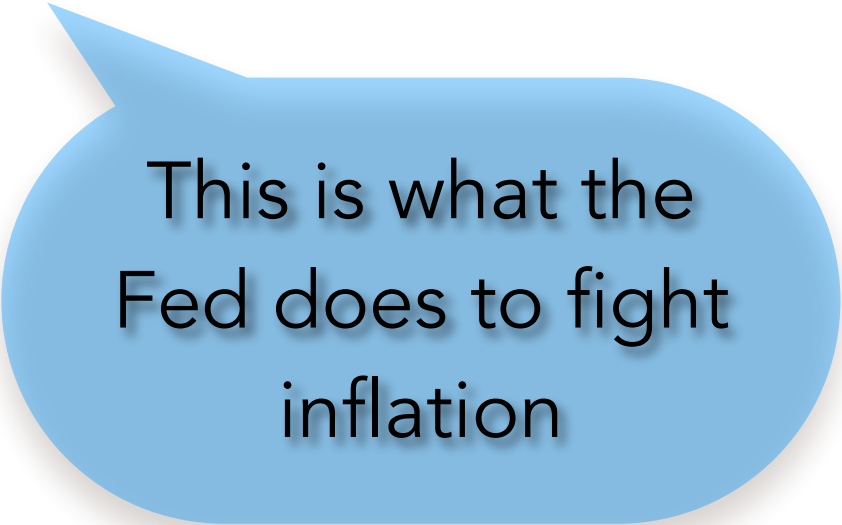
The Fed now  
holds 80b in  
Bonds

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





20b

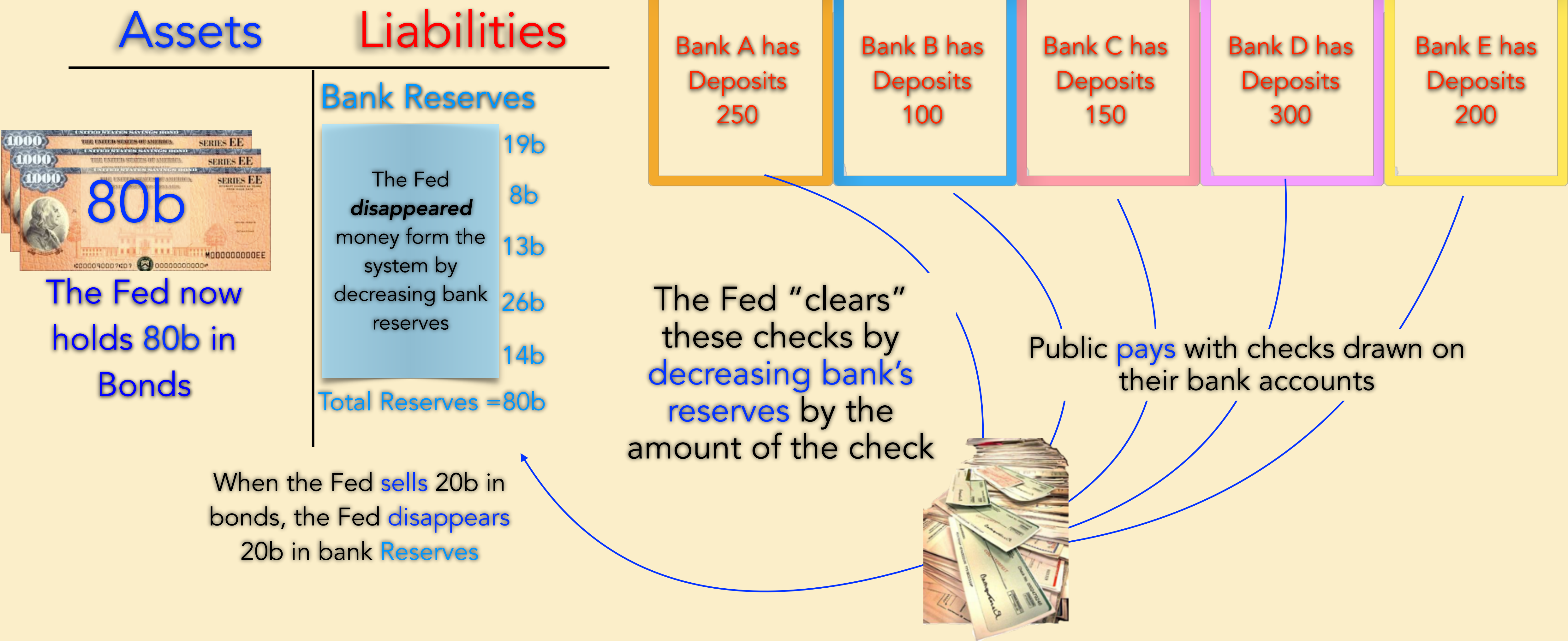


This is what the  
Fed does to fight  
inflation

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**



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

Bank A  
 $r=10\%$

