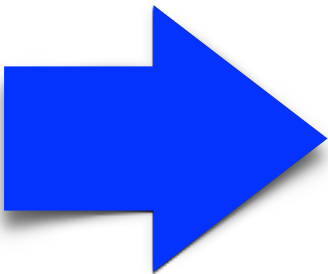


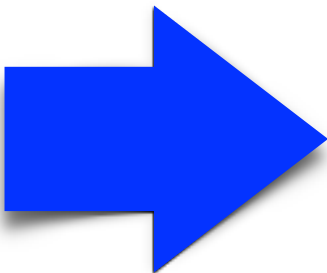
Monetary Policy Tools

3. Required Reserves Ratio

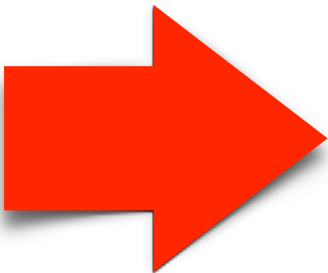
When the Fed Increase
the Required Reserves
Ratio, more banks
become Short of Reserves



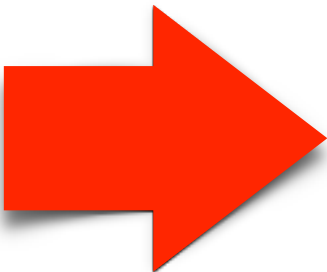
Banks must decrease
loans outstanding to
build up their reserves



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



Banks will
increase loans



Loans Decrease

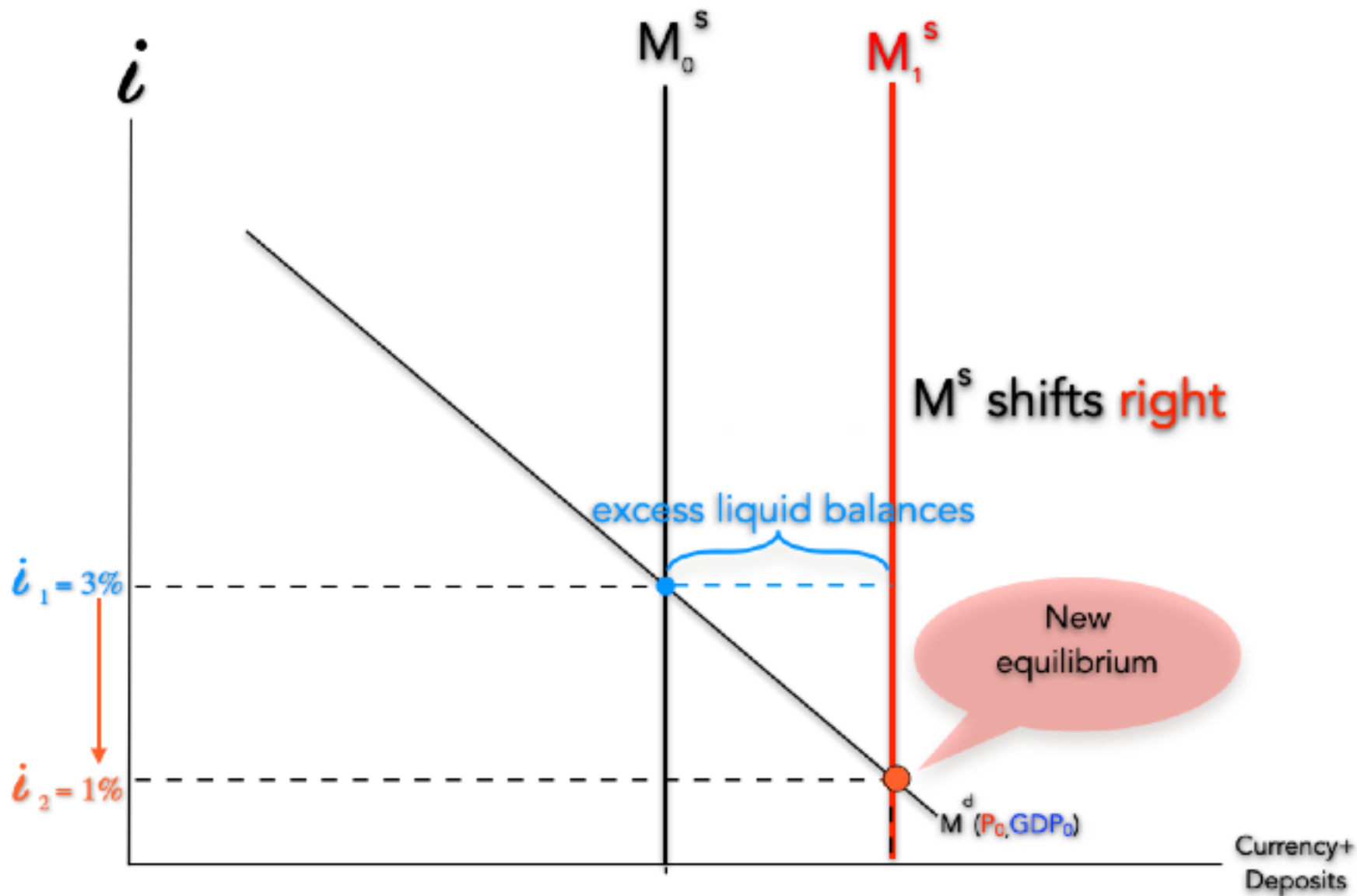
Deposits Decrease

Money Supply Decrease

Loans Increase

Deposits Increase

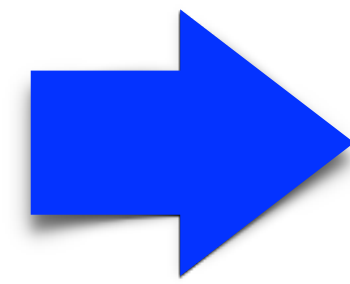
Money Supply Increase



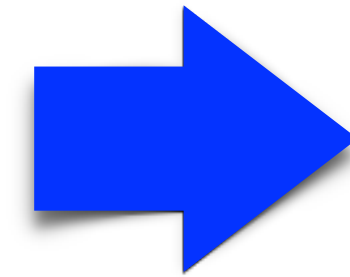
Monetary Policy Tools

3. Required Reserves Ratio

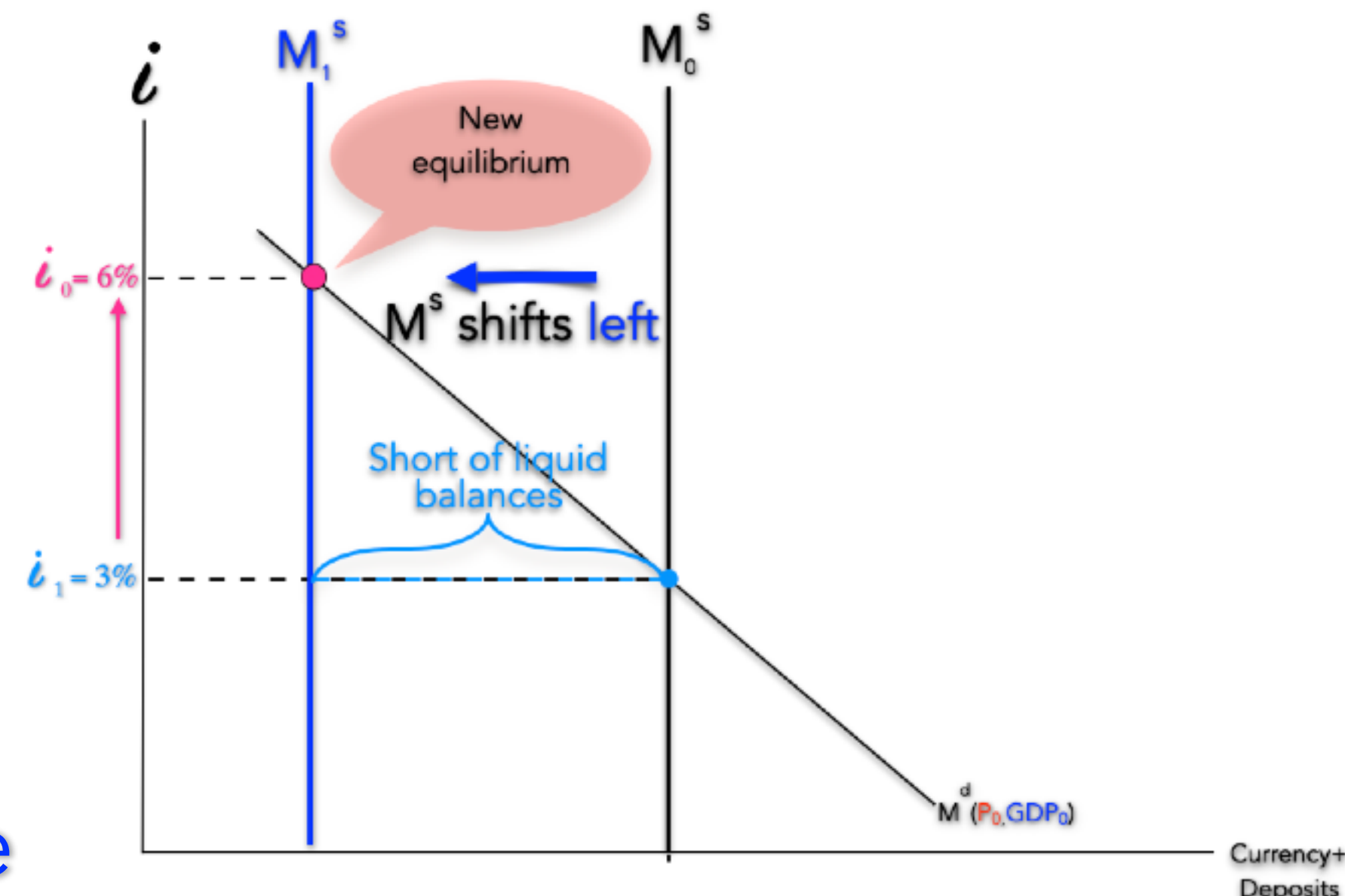
When the Fed **Increase** the Required Reserves Ratio, more banks become **Short of Reserves**



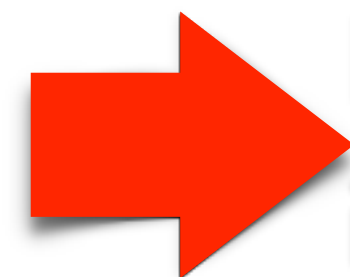
Banks must **decrease** loans outstanding to build up their reserves



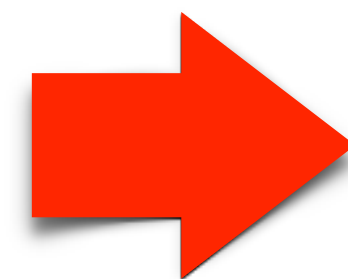
Loans **Decrease**
Deposits **Decrease**
Money Supply **Decrease**



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**

