





# 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

Bond holders



Sell 10b in bonds to the Fed



The Fed now  
holds 110b in  
Bonds







Bond holders



Fed **pays \$10b** to Bond sellers

United States Treasury

U.S. \$ 903,555,902



Check No.

000-197-8423-555

Pay to the order of

Payable

JUNE 3 ONE

PO BOX

PLANTING, WJ 54555

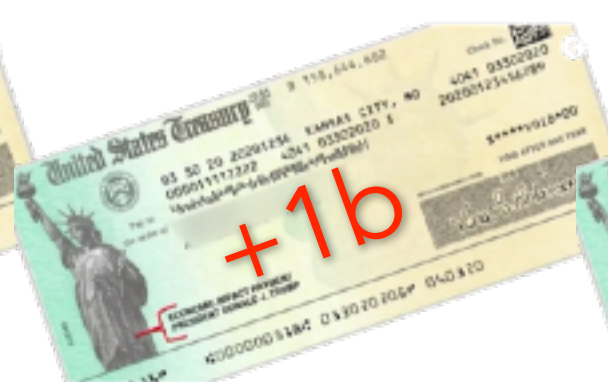
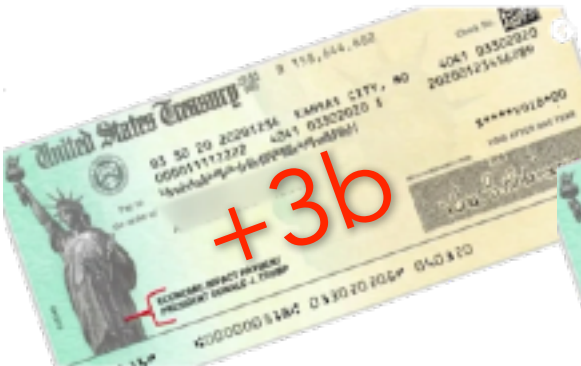
DOLLARS CTS

\$ 903,555 902

VOID AFTER ONE YEAR



Banks send these checks to the Fed for clearing





Public deposits these checks into their banks













**F**











2

**V**

S









S















S

**b**



**Y**











2

S







9







**b**

2









S





S











S

**b**

**V**









9

mm



U





















+3b

+

1

b



+

1

b

+2b

+3b

and destroys the checks

+10b

10b

110b















**B**

U

Y



S

**B**





S





















**M**

2















**U**

2









2





**E**

a



S



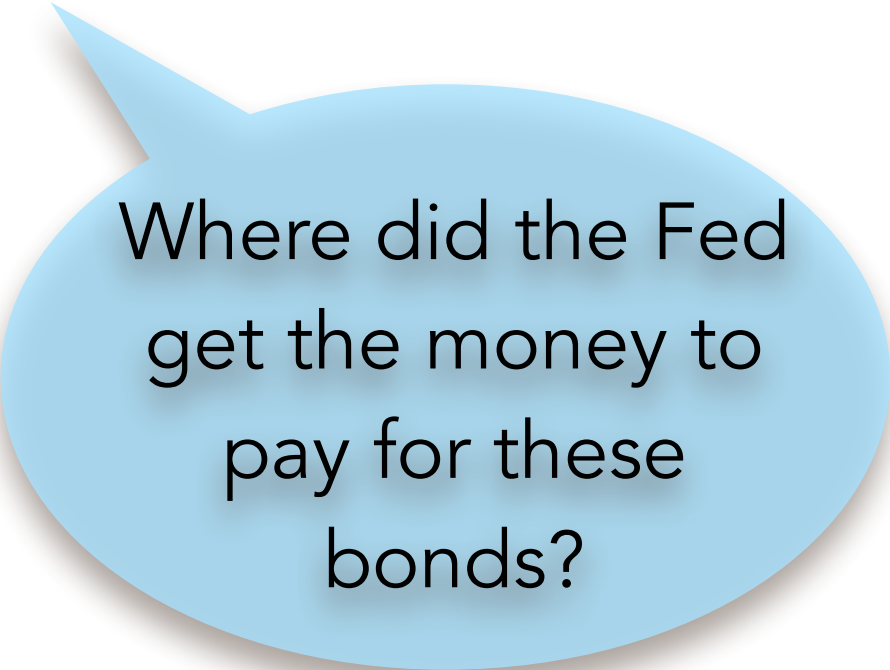


9









Where did the Fed  
get the money to  
pay for these  
bonds?



Nowhere! The money is simply ***created*** by changing a computer entry that reads how many reserves each bank has

28b

1

1

b

16b

32b

23b

Total Reserves = 1100b

W















**F**







b

U

Y



































**F**













3























W













2







3







R



S











S













S





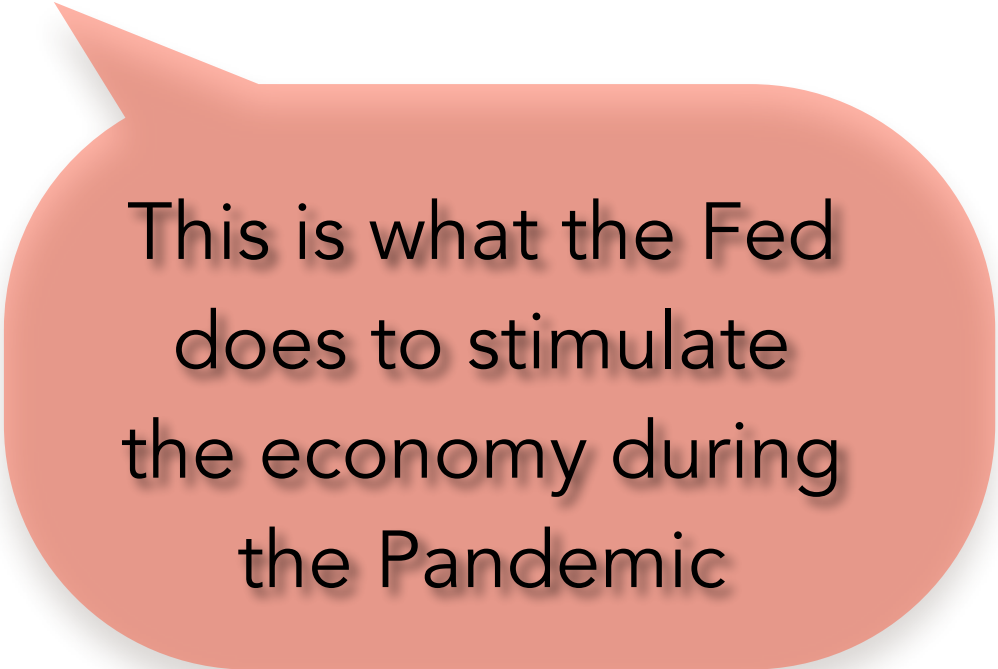


**V**









This is what the Fed  
does to stimulate  
the economy during  
the Pandemic

The Fed Buys Bonds in the Open Market (Quantitative Easing QE)



The Fed “pays” these checks by increasing the bank’s reserves by the amount of the check

# The Fed Buys Bonds in the Open Market (Quantitative Easing QE)

Banks send these checks to the Fed for clearing

Assets	Liabilities
 <p>The Fed now holds 110b in Bonds</p>	<p>Bank Reserves</p> <p>Nowhere! The money is simply <b>created</b> by changing a computer entry that reads how many reserves each bank has</p> <p>28b 11b 16b 32b 23b</p> <p>Total Reserves = 110b</p>

When the Fed buys 10b in bonds, the Fed creates 10b in **new money** and bank Reserves increase by 10b

