



Can be held at the
Fed's vault



Fed pays 0.1% interest on both:

Required and Excess Reserves



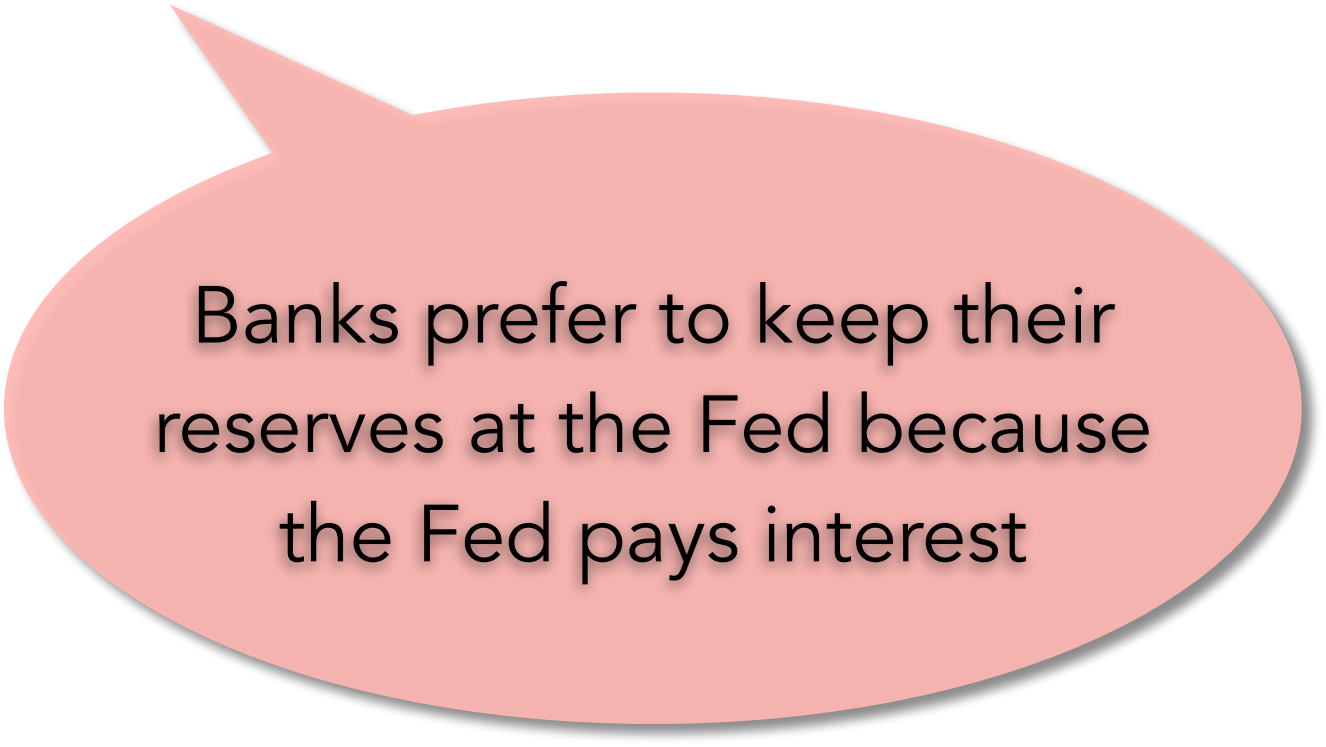
Bank's Reserves

Bank A

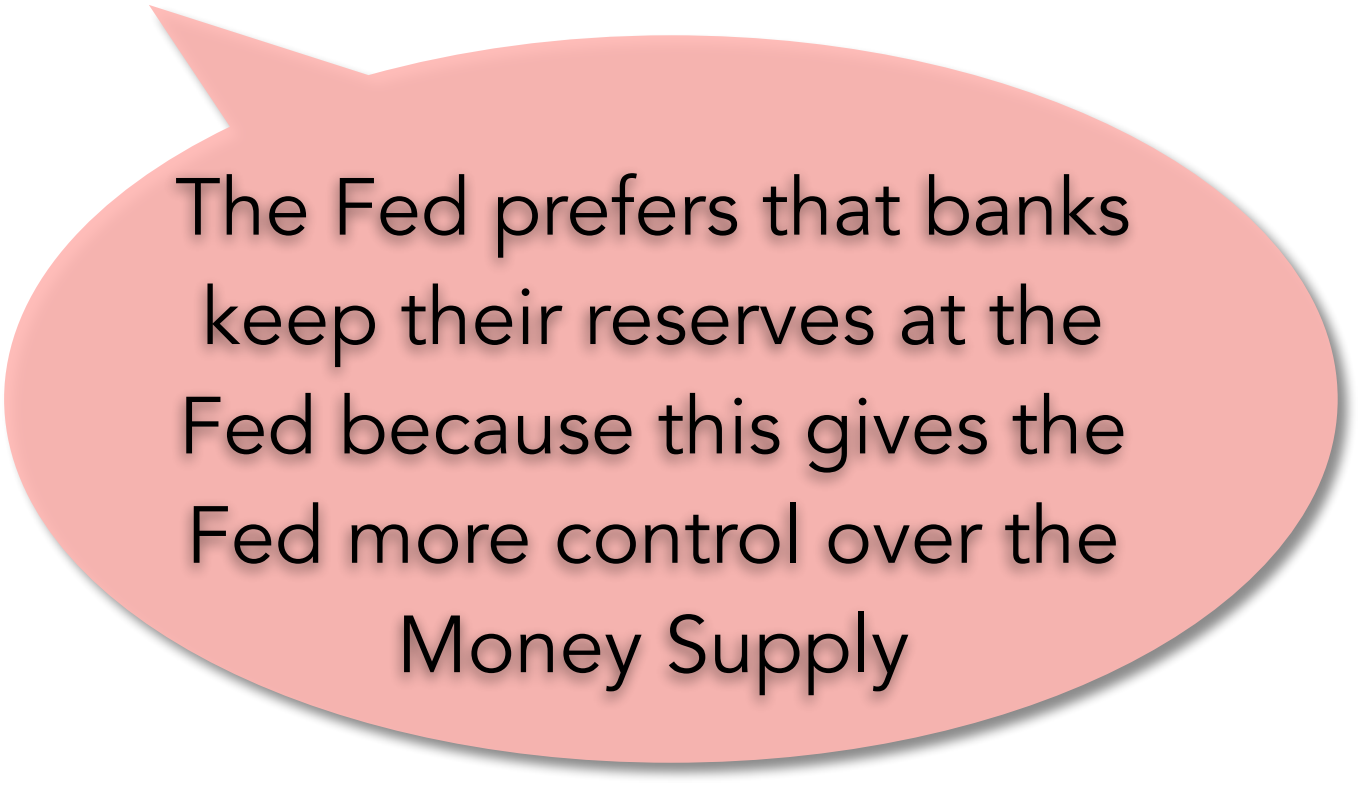
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No Interest



Banks prefer to keep their
reserves at the Fed because
the Fed pays interest



The Fed prefers that banks
keep their reserves at the
Fed because this gives the
Fed more control over the
Money Supply



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Bank's
Reserves

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Bank A

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THE FED'S "T" ACCOUNT