Assets	Liabilities

Assume the Fed is presently holding 100b in Bonds

Bank Reserves

100b

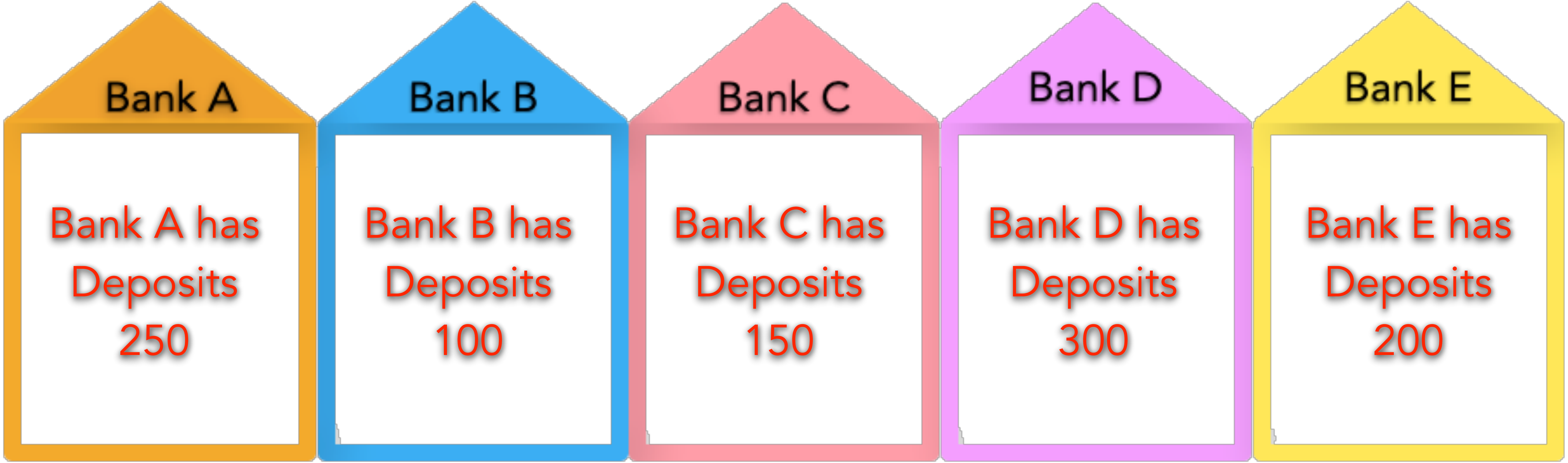
$$R_A = 0.1 \times 250 = 25b$$

$$R_B = 0.1 \times 100 = 10b$$

$$R_C = 0.1 \times 150 = 15b$$

$$R_D = 0.1 \times 300 = 30b$$

$$R_E = 0.1 \times 200 = 20b$$


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 = 100b


-6b

-2b

-2b

-4b

-6b

Public pays with checks drawn on their bank accounts

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C

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-6b

-2b

-2b

-4b

-6b

-20b

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

The Fed ***disappeared*** money form the system by decreasing bank reserves

19b

8b

13b

26b

14b

Total Reserves =80b

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The Fed now holds 80b in Bonds

Fed sells 20b in bonds to the public


UNITED STATES SAVINGS BOND
1000
SERIES EE

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)

Assets	Liabilities
	Bank Reserves

The Fed now holds 80b in Bonds

The Fed ***disappeared*** money form the system by decreasing bank reserves

19b

8b

13b

26b

14b

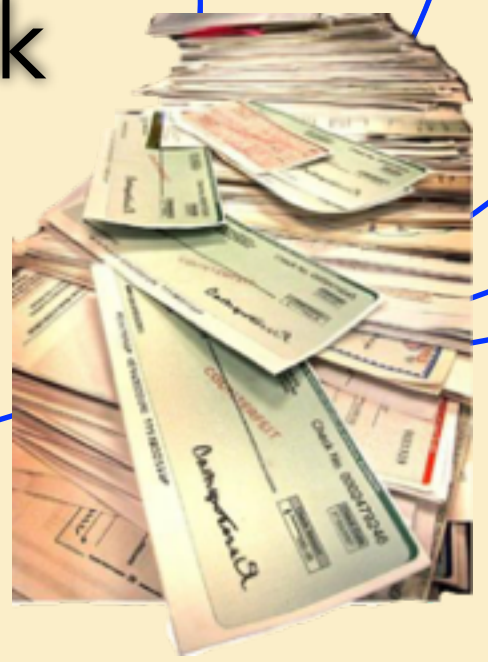
Total Reserves =80b

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

Bank A	Bank B	Bank C	Bank D	Bank E
Bank A has Deposits 250	Bank B has Deposits 100	Bank C has Deposits 150	Bank D has Deposits 300	Bank E has Deposits 200

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



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

Bank A

r=10%