Assets	Liabilities

Assume the Fed is presently holding 100b in Bonds

Bank Reserves


100b

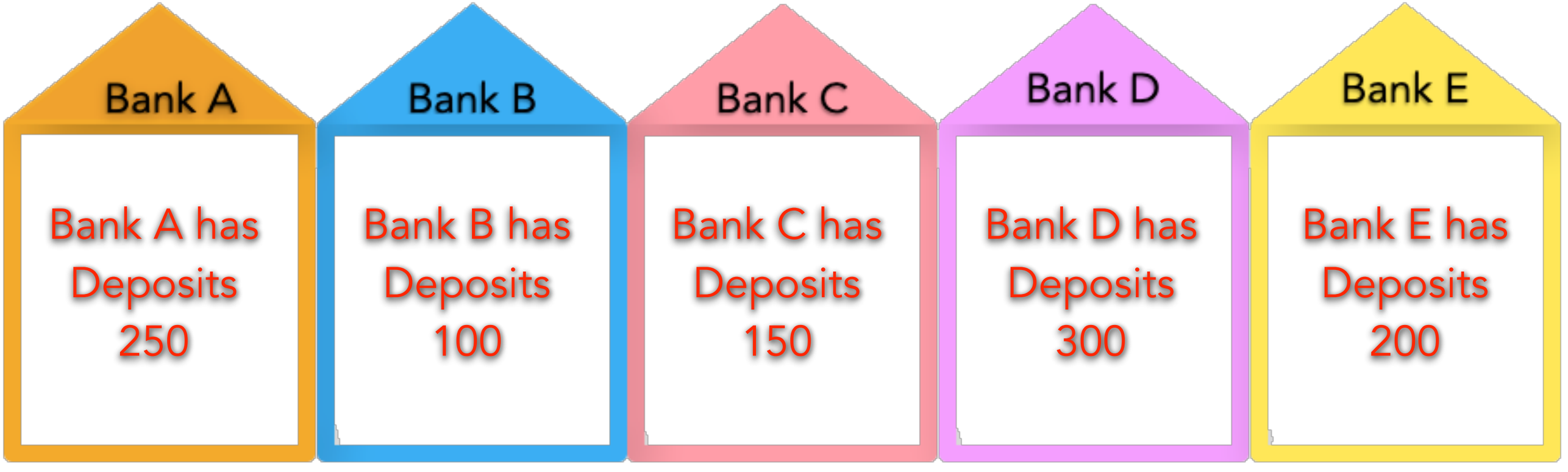
$$R_A = 0.1 \times 250 = 25b$$

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

$R_C = 0.1 \times 150 = 15\text{b}$

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

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


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

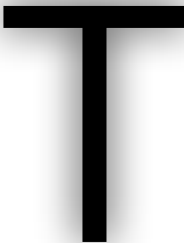
-2b

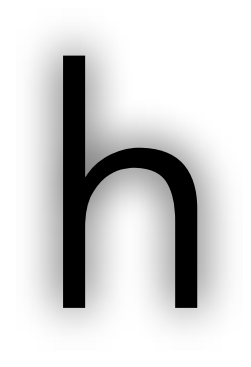
-2b

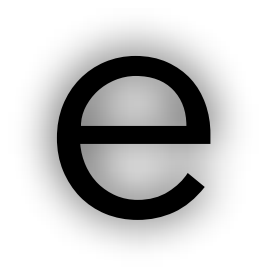
-4b

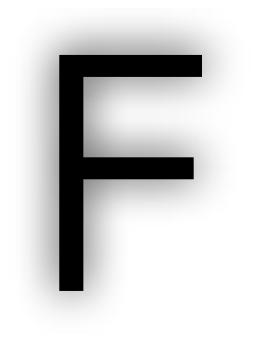
-6b

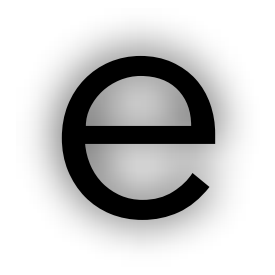
Public pays with checks drawn on their bank accounts

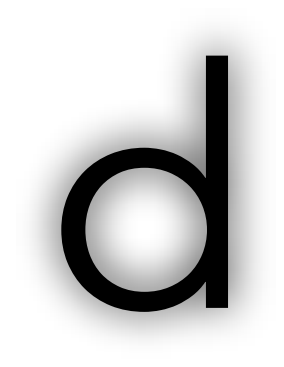


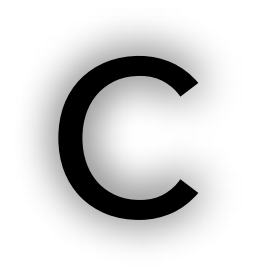








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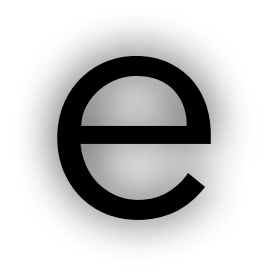

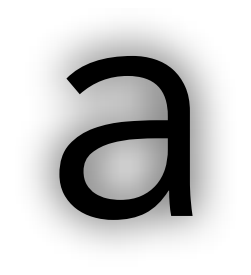
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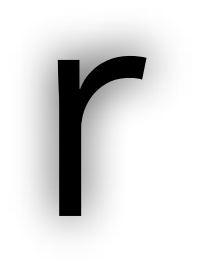

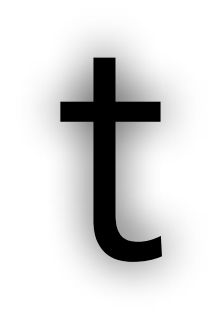

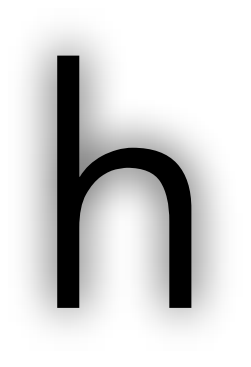

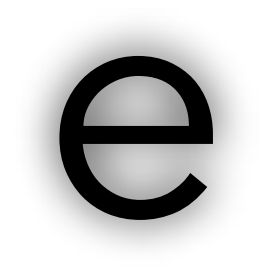


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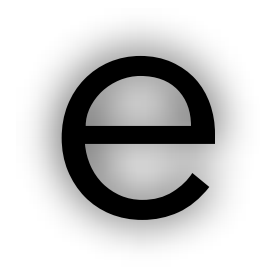

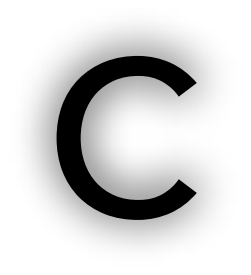
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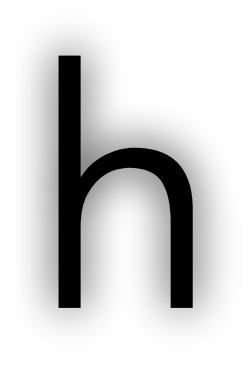

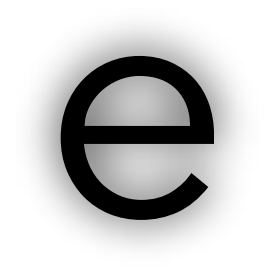

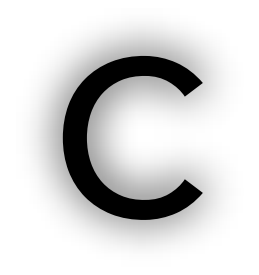
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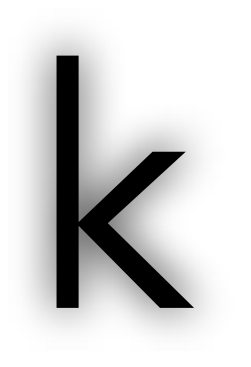

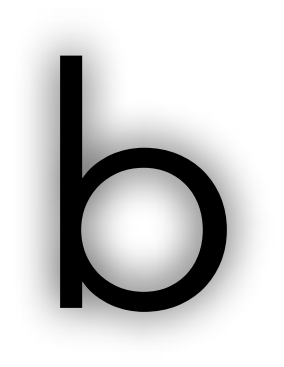

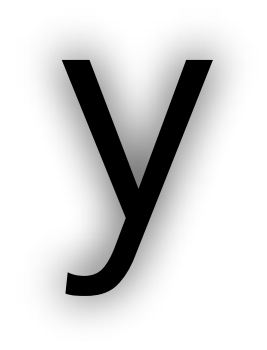
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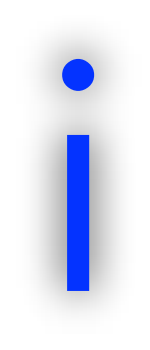
a


S

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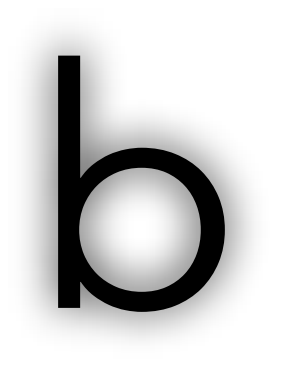

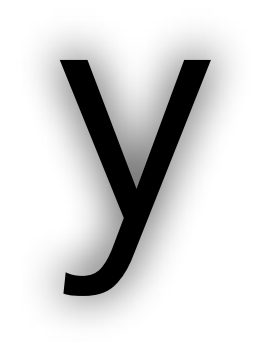
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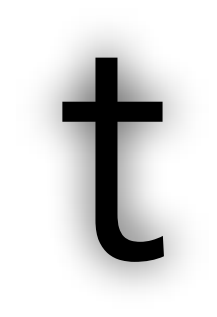

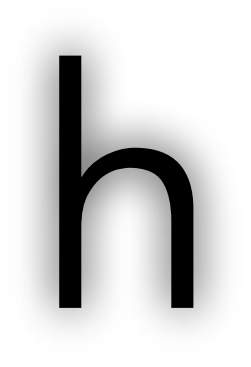

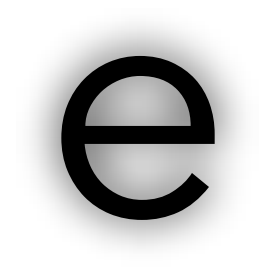


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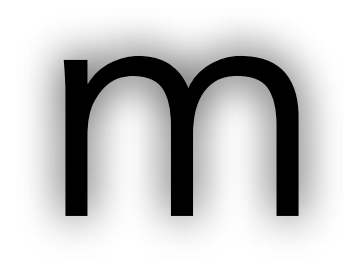

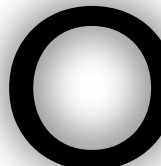

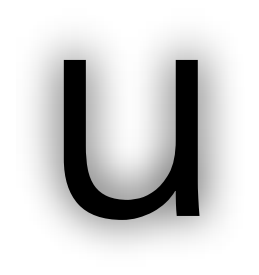


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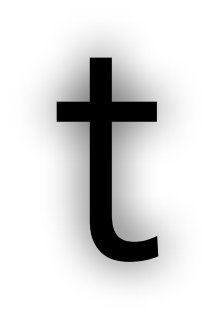

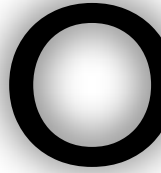

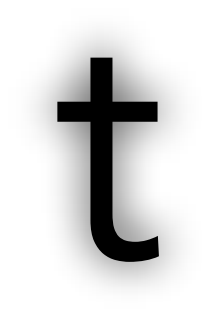

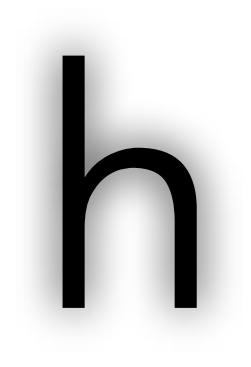

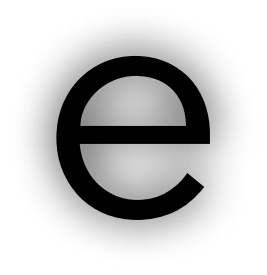

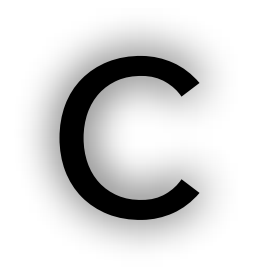
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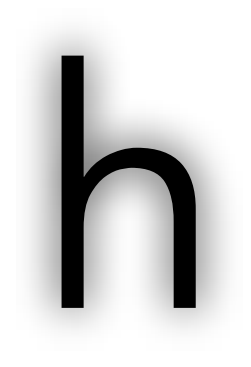

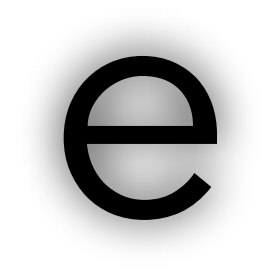

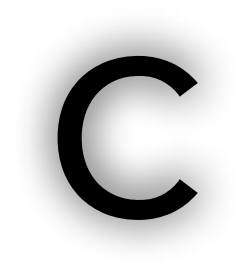
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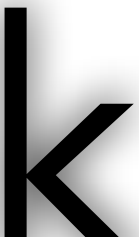



-6b


-2b


-2b

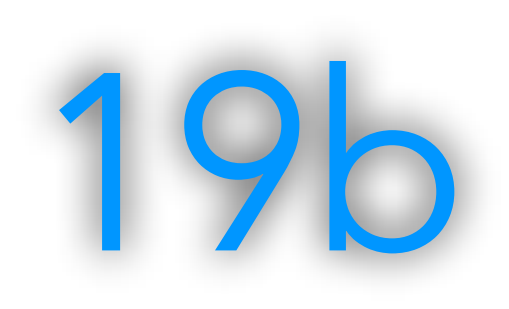

-4b


-6b


-20b

The Fed Sells Bonds (Quantitative Tightening QT)

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


19b

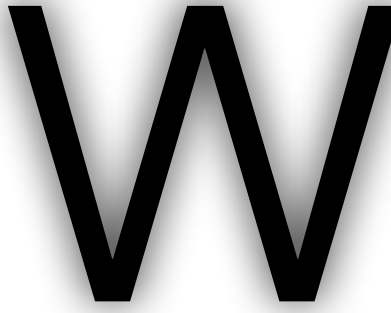

8b

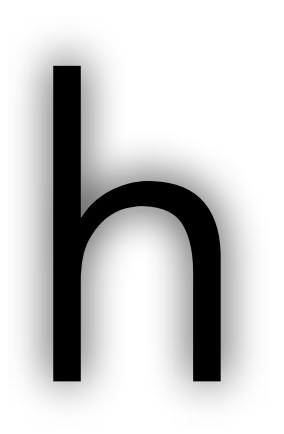
13b

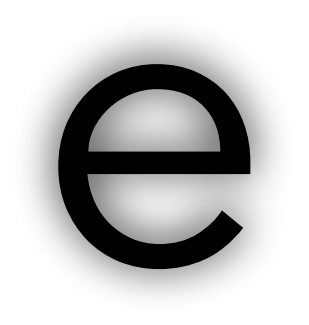

26b

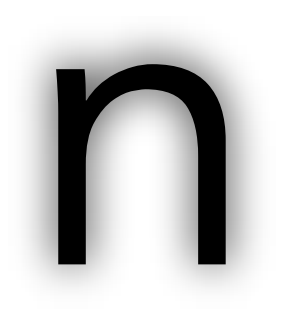
14b

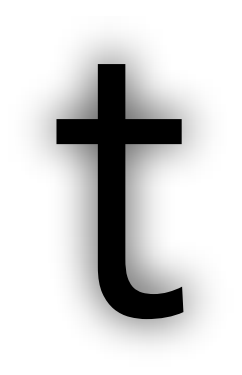
Total Reserves =80b







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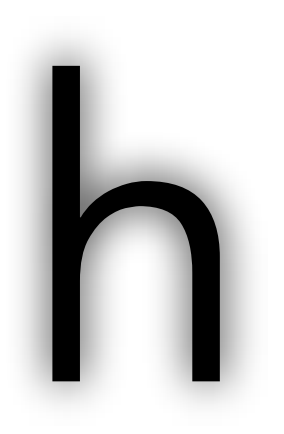

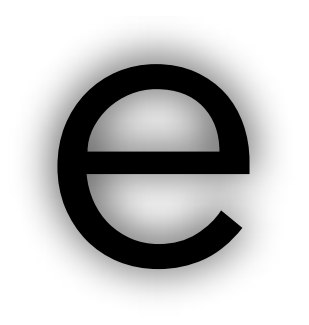

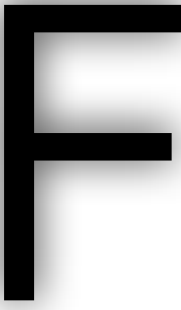

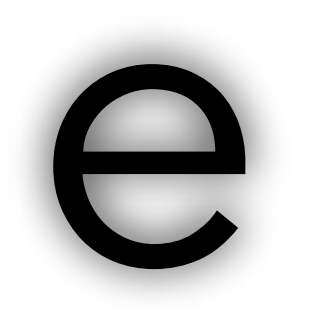

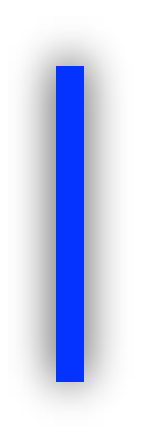


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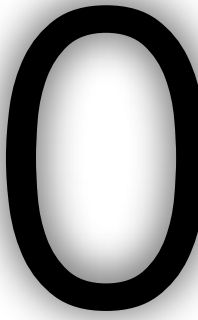

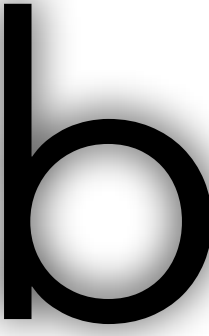

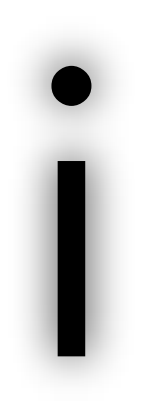


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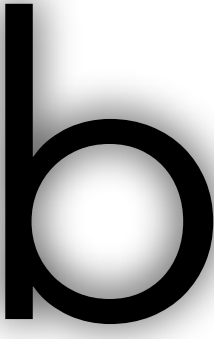

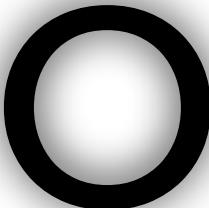

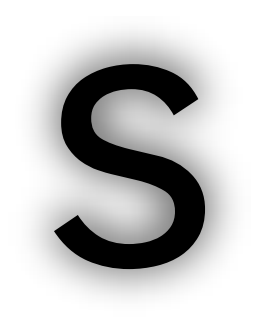

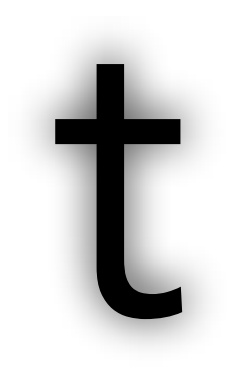

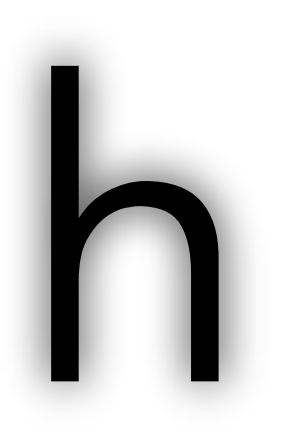

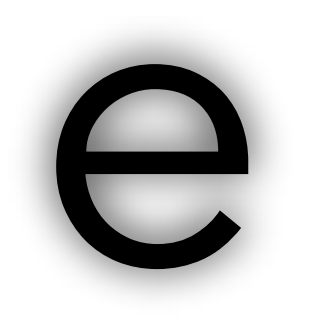

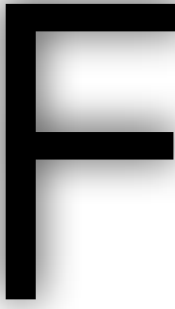

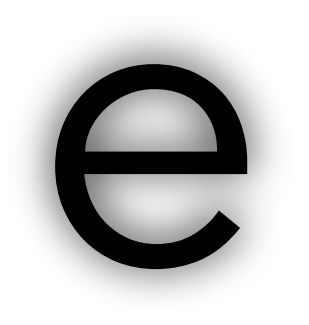

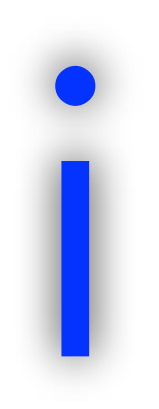


S


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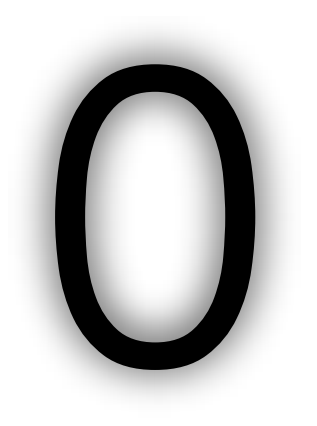

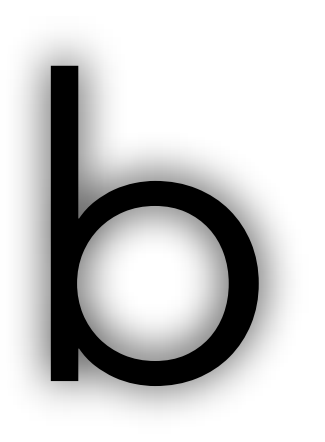

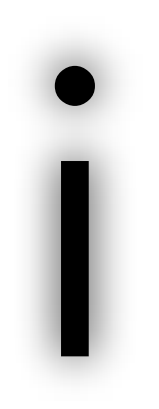

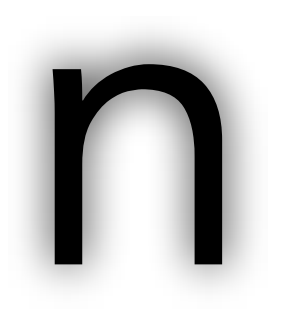

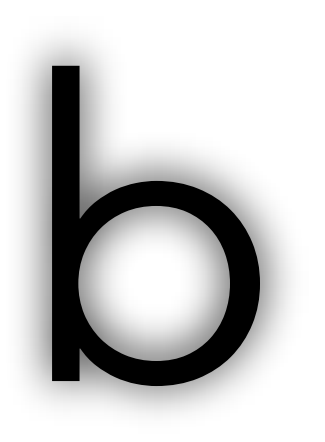

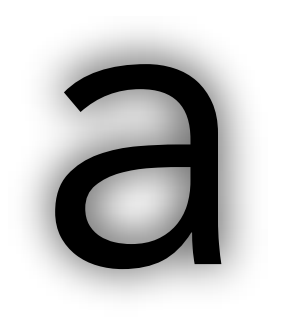
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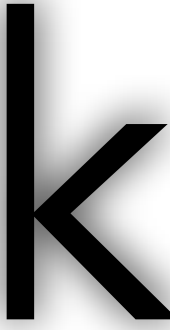


The Fed now holds 80b in Bonds

Fed sells 20b in bonds to the public


UNITED STATES SAVINGS BOND
1000
THE UNITED STATES OF AMERICA
ONE THOUSAND DOLLARS
SERIES EE
M00000000EE

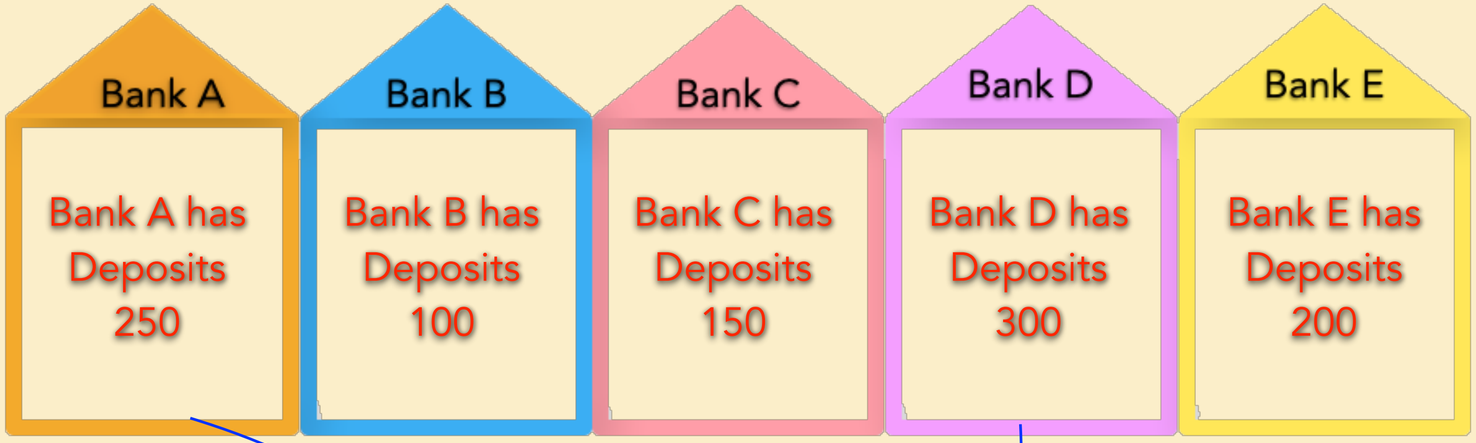

20b

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 (Quantitative Tightening QT)

Assets	Liabilities
 The Fed now holds 80b in Bonds	Bank Reserves: The Fed ***disappeared*** money form the system by decreasing bank reserves 19b 8b 13b 26b 14b Total Reserves =80b



Public pays with checks drawn on their bank accounts

The Fed "clears" these checks by decreasing bank's reserves by the amount of the check

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