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About the Q33 in Quiz of Week 4

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YU JIAKAN · 3 hours ago 🔗

Hi! Everyone and Professors!
I have a question about the Q33 in Quiz of week 4.

It asked that Suppose the Federal Reserve wants to close a recessionary gap of $100 billion and the reserve requirement is 20%. How much money will it have to create to close this gap?

According to the formula given in the lecture, I think the answer should be 20 billion. But the system said I am wrong. Is the answer wrong or me?

Wish to hear the comment from you!

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Andy Sze · an hour ago 🔗

If your answer is $20b, the question should change to "How much cash deposit money the Fed needs on hand in order to close the recessionary gap of $100b?"

  Gap = Cash Deposit x Money Multiplier

 $100b = Cash Deposit x 5   (MM =1/RR = 1/0.2= 5)

       Cash Deposit = $20b

How much money will it have to create to close this gap? That is the $100b money supply the Fed wants to increase/create in order to close this recessionary gap.

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