# Written Assignment 7

# Money Supply Expansion from Open-Market Purchase

To determine how much the money supply could expand from a $2 billion open-market purchase by the Federal Reserve, we apply the money multiplier formula:

Money Multiplier = 1 / Required Reserve Ratio = 1 / 0.2 = 5

Then, we multiply the money multiplier by the amount of the Fed’s bond purchase:

Total Money Supply Expansion = 5 × $2 billion = $10 billion

Final Answer: The money supply could expand by $10 billion.

Reference:  
Mankiw, N. G. (2021). \*Principles of Economics\* (9th ed.). Cengage Learning.