

2.5

Answer to blank 1: \$450

Answer to blank 2: \$230

Answer to blank 3: \$230

Explanation:

Required reserve = $0.10 * 4,500 = \$450$

Excess reserve = $680 - 450 = \$230$

The bank can increase its loan by the amount of excess reserve, i.e., \$230

The bank **can lend reserves**.

Assets	Liabilities
Reserves : \$480	\$4,300 Deposits
Loans : \$3,820	

2.6

a)

The T-account for Bank can be seen as follows:

Assets		Liabilities	
Reserves	8000	Deposits	8000

b)

The updated T-account for Bank can be seen as follows:

Assets		Liabilities	
Reserves(@4% of \$8000)	320	Deposits	8000
Loans (Deposits – Reserves)	7680		

c)

The T-account for the Bank can be seen as follows:

Assets		Liabilities	
Reserves(@4% of \$8000)	320	Deposits	8000
Loans (Deposits – Reserves)	7680		

d)

The T-account for the Paradise Bank can be seen as follows:

Assets		Liabilities	
Reserves	7680	Deposits	7680

Maximum deposits that can be created from initial deposit = $1/rrr = 1/0.04 = 25 \times 8000 = \$200,000$

The maximum amount of loans that the banking system can make is equal to the increase in total deposits minus the initial deposit.

So, to determine the loans, calculate the total deposits and then subtract the initial deposit = $200,000 - 8,000 = \$192,000$