a bank's balance sheet

Let's say that we have a small town that is completely isolated from everywhere else. There is _____ in currency in this town, no banks, and no money enters or leaves this town. Then one day, someone sets up a bank, and everyone deposits their money.

(1)

assets		liabilities	
reserves		deposits	

Because most of the money is just sitting there, the bank decides to start making loans. It also decides to always keep **reserves** equal to _____ percent of **deposits**.

So, the bank has imposed on itself a _____ .

Now,

(1b)

assets		liabilities	
reserves		deposits	
loans			

What happens to the _____ in loans? _____

Now,

(2)

assets		liabilities	
reserves		deposits	
loans			
total		total	

Given its reserve requirement, how much does the bank now have to keep in reserve (i.e., in its vaults)? _____

How much can it loan? _____ It lends this amount, and now:

(2b)

assets		liabilities	
reserves		deposits	
loans			
total		total	

These loans are then deposited into the bank. Now,

(3)

assets		liabilities	
reserves		deposits	
loans			
total		total	

Given its reserve requirement, how much does the bank now have to keep in reserve (i.e., in its vaults)? _____

How much can it loan? _____ It lends this amount, and now:

(3b)

assets		liabilities	
reserves		deposits	
loans			
total		total	

These loans are then deposited into the bank.

(4)

assets		liabilities	
reserves		deposits	
loans			
total		total	

How much currency exists in this town? _____

How much money, right now, exists in this town? _____

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(1) The reserve requirement is the **percentage of deposits** that has to be **kept in reserves**.

(2) The rest of the reserves (which is the available currency) can be used for loans.

(3) When (and if) the loan is deposited, it will count as a deposit and, until new loans are made, it will be in the reserves.

(4) The purpose of the balance sheet is to verify that assets equal liabilities.

(5) _____

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maximum deposits: