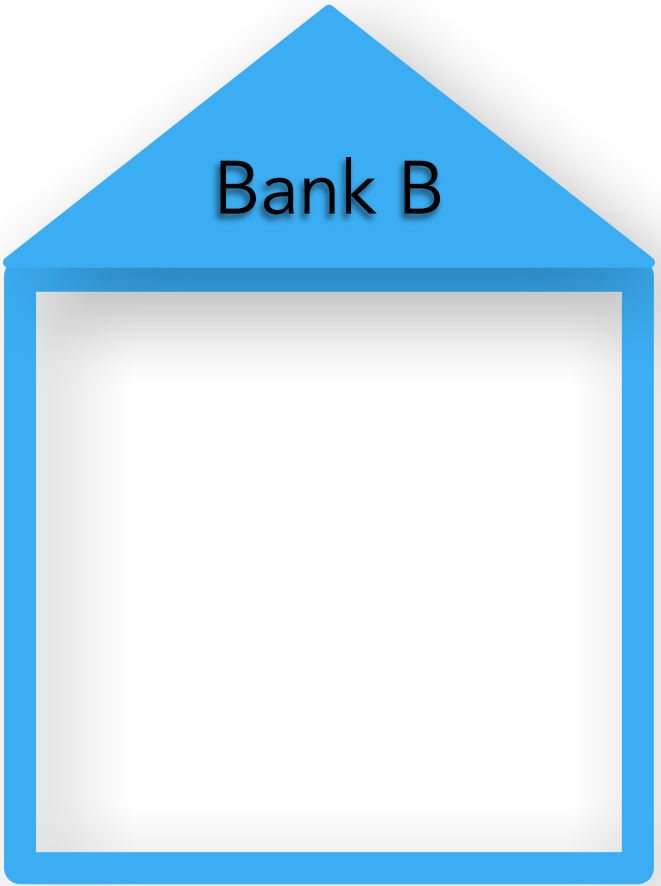
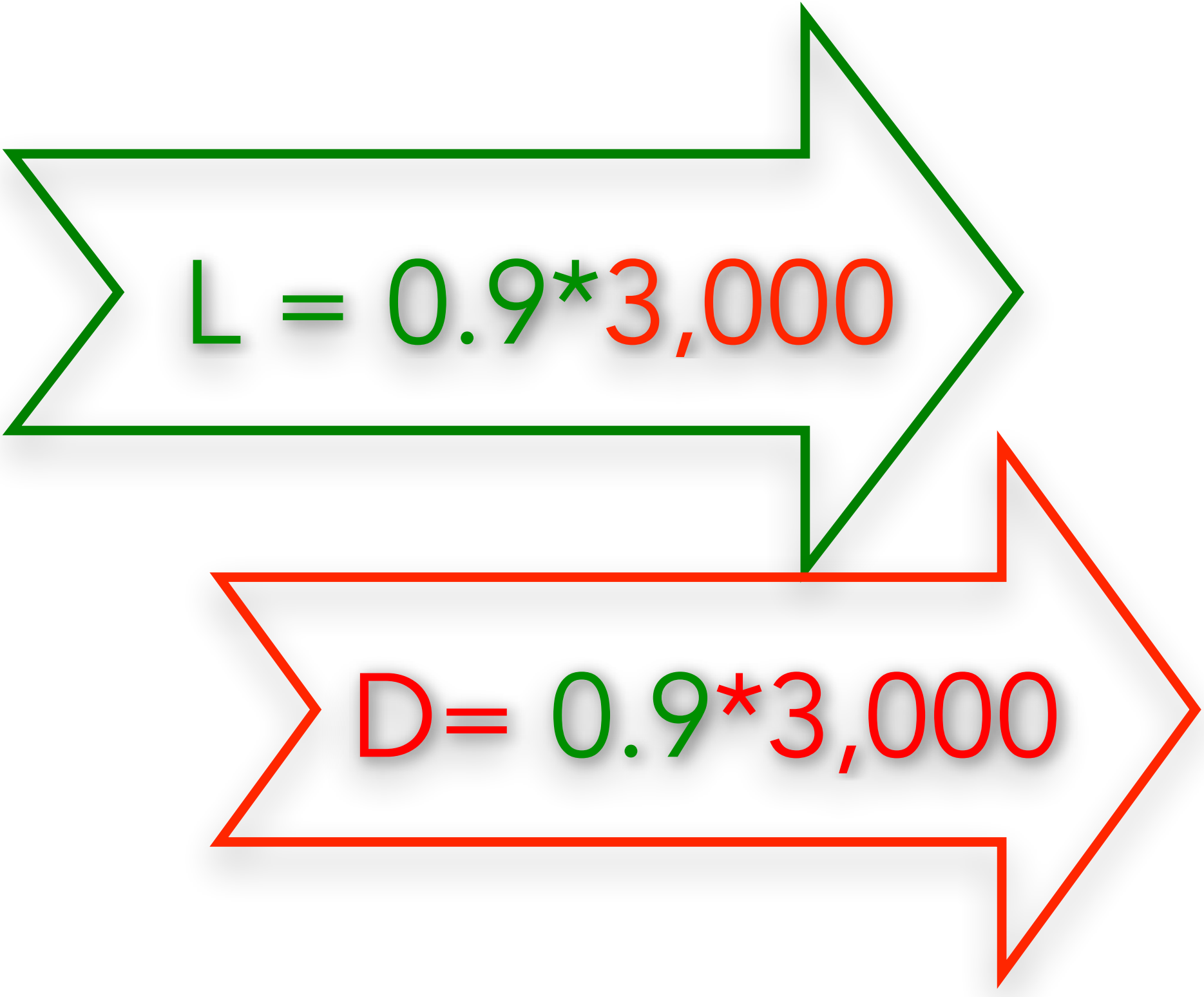
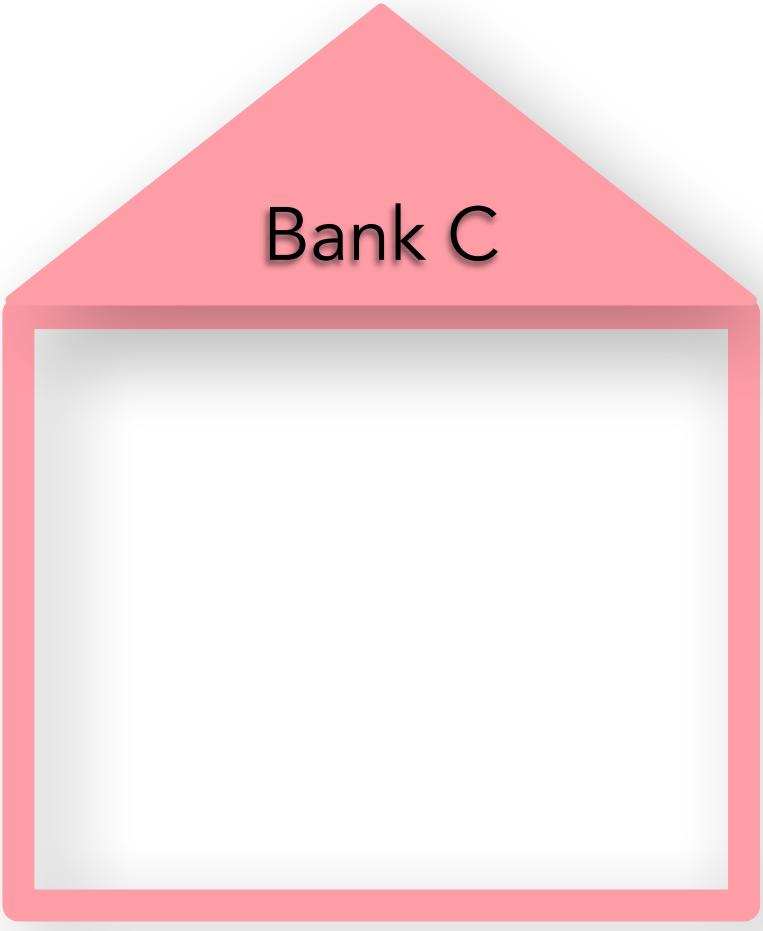
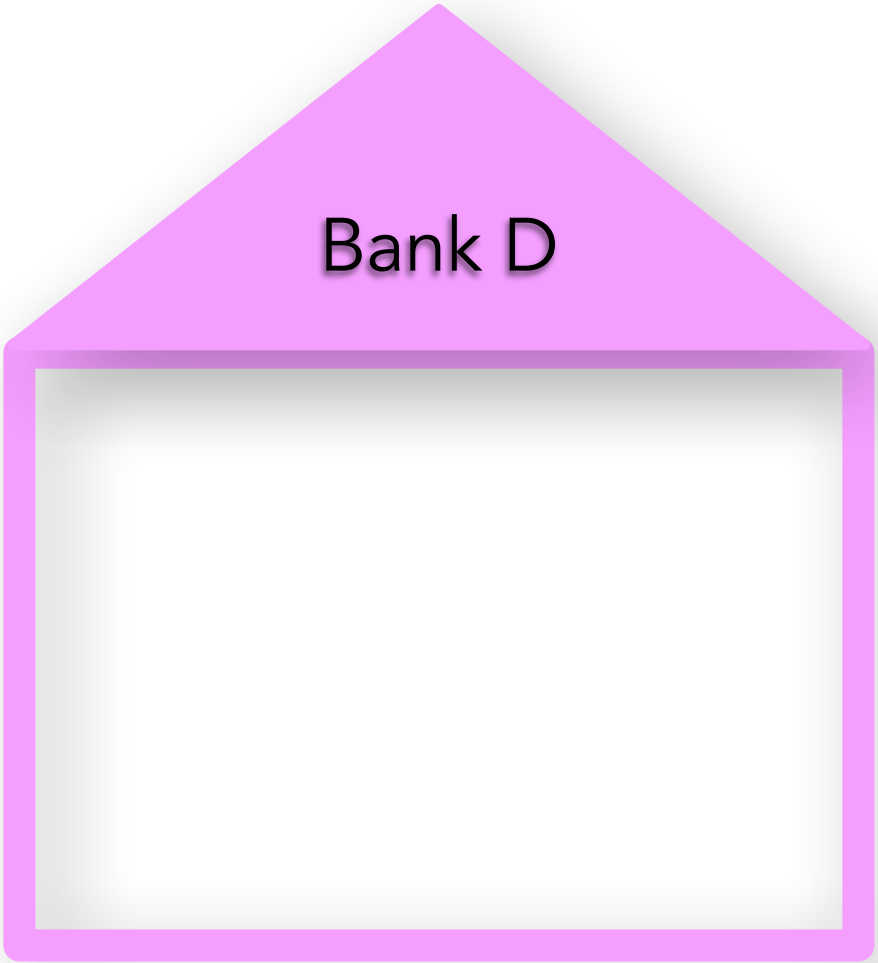
Bank A

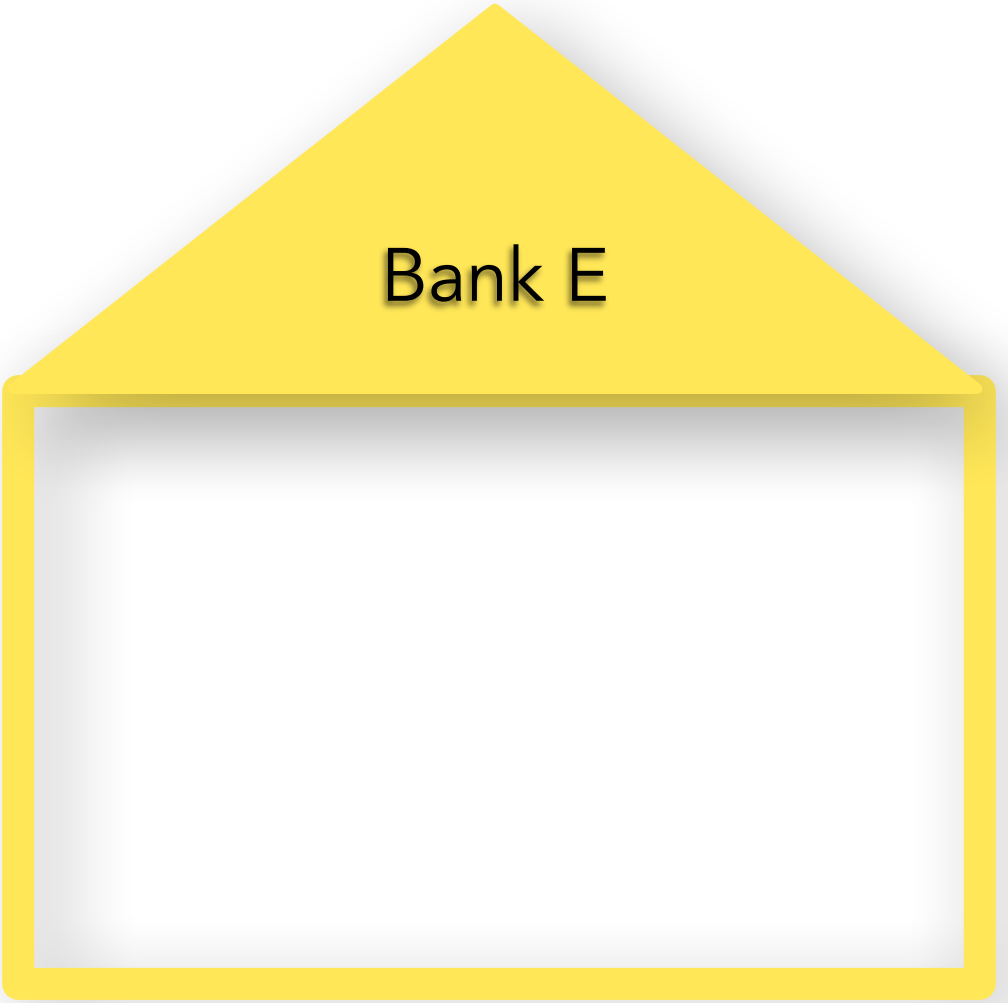
New
Money:
3,000b

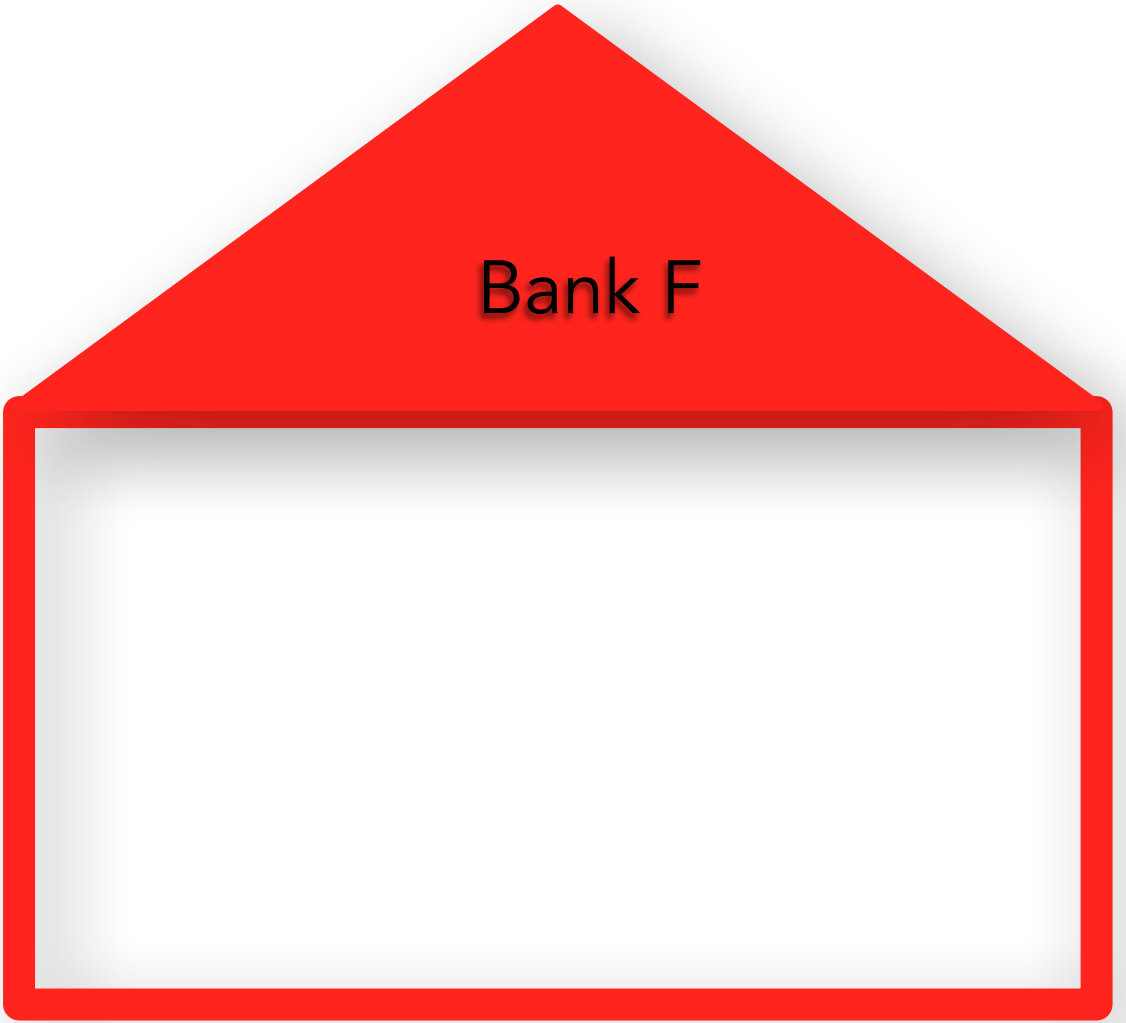

Bank B


L = 0.9*3,000
D= 0.9*3,000

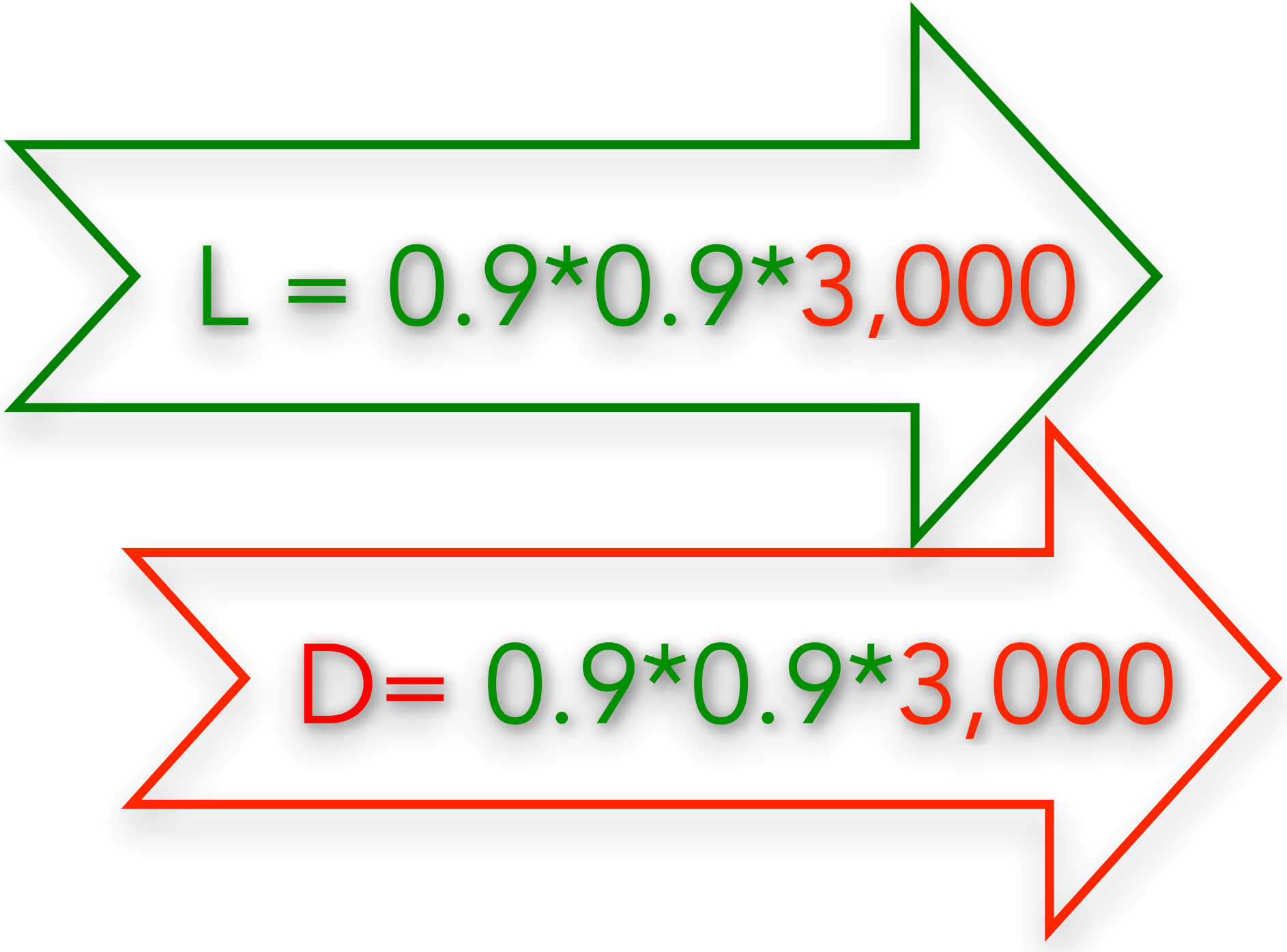

Bank C

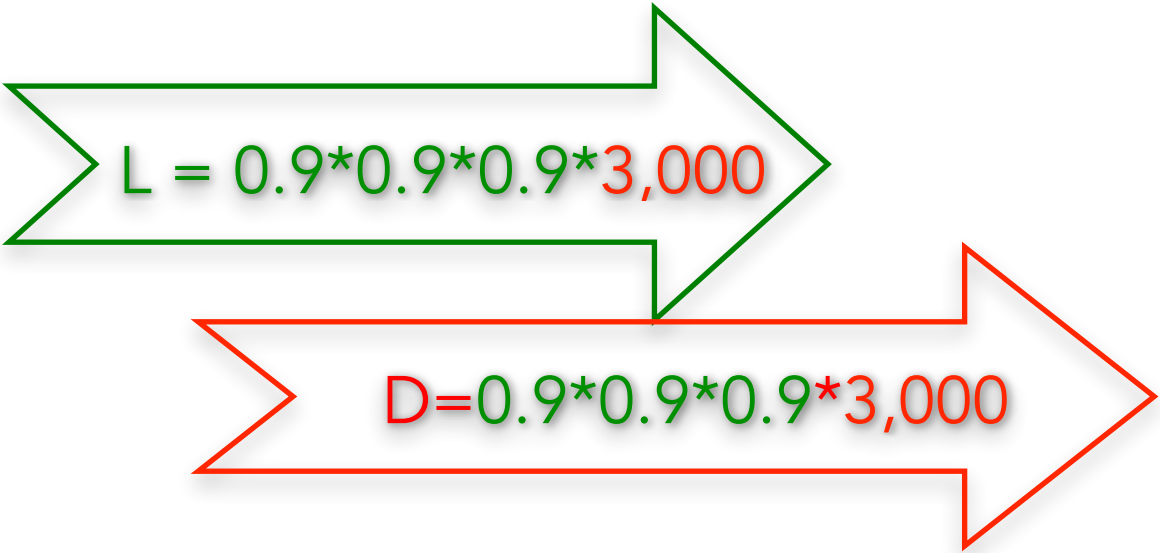

Bank D

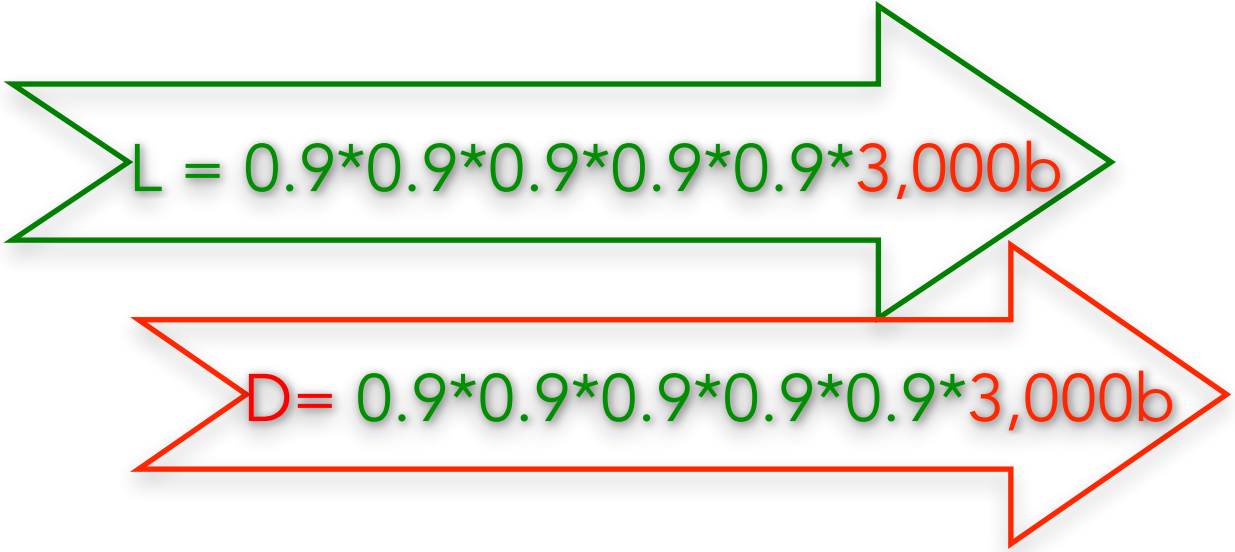

Bank E

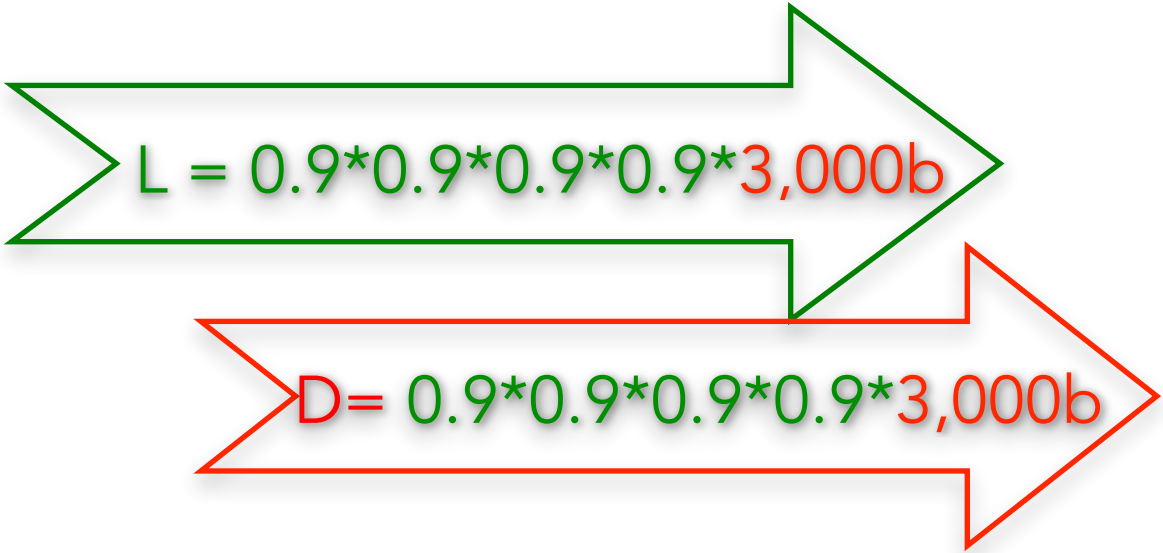

Bank F

$$D = 3{,}000$$


L = 0.9*0.9*3,000
D= 0.9*0.9*3,000


L = 0.9*0.9*0.9*3,000
D=0.9*0.9*0.9*3,000


L = 0.9*0.9*0.9*0.9*0.9*3,000b
D= 0.9*0.9*0.9*0.9*0.9*3,000b


L = 0.9*0.9*0.9*0.9*3,000b
D= 0.9*0.9*0.9*0.9*3,000b

A 3,000b injection of new money into the banking system, increase total Loans by 27,000b

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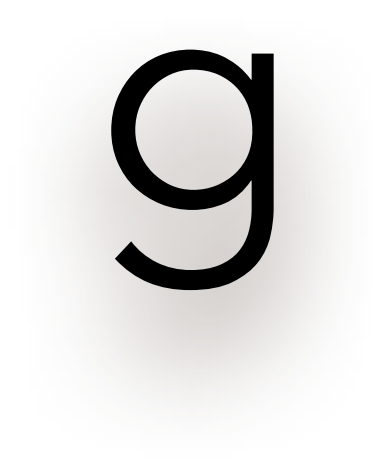

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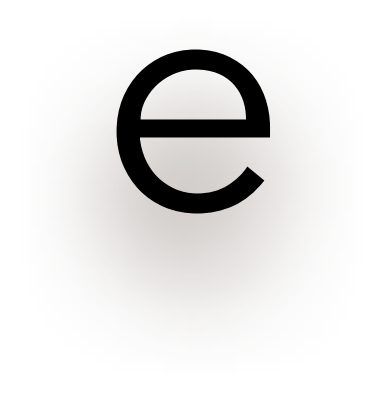
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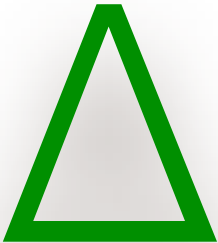


Loans are equal to Deposits

Loans are equal to Deposits

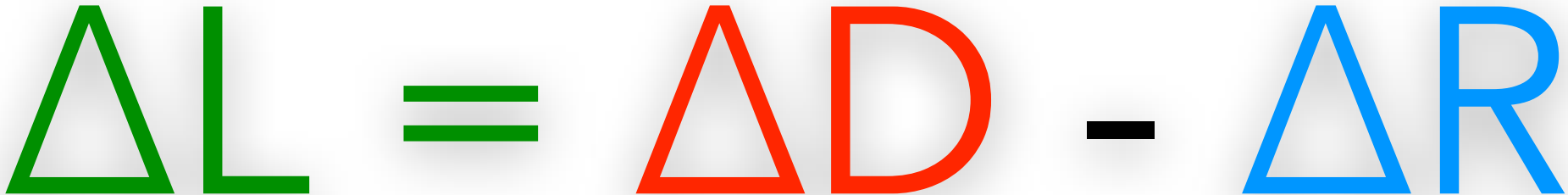
Loans are equal to Deposits

Loans are equal to Deposits

Loans are equal to Deposits

ΔL = New Deposits - New Money

Total new Loans issued by all banks


ΔL = ΔD - ΔR

After the initial deposit of new money…

ΔR
becomes
reserves

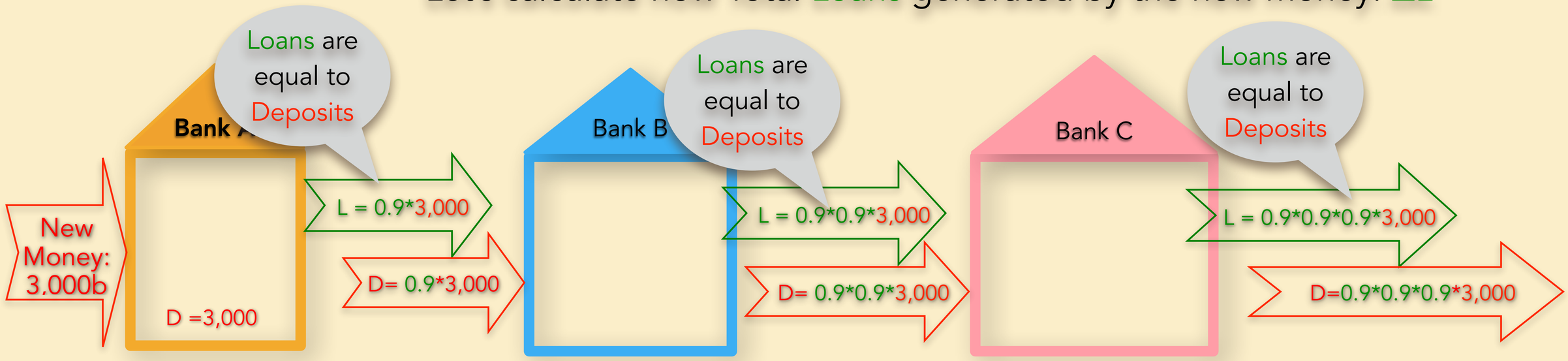
$$\Delta L = 30{,}000 - 3{,}000$$

$$\Delta L = 27{,}000$$

New Money

Let’s calculate now Total Loans generated by the new money: ΔL

Let's calculate now Total Loans generated by the new money: ΔL



Total new Loans issued by all banks

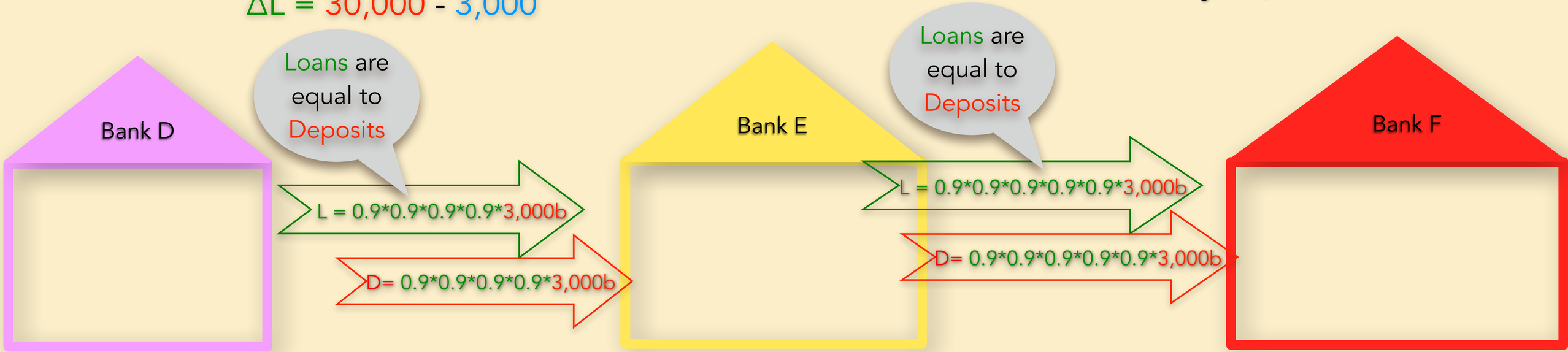
ΔL = New Deposits - New Money

$\Delta L = \Delta D - \Delta R$

$\Delta L = 30{,}000 - 3{,}000$

$\Delta L = 27{,}000$

A 3,000b injection of new money into the banking system, increase total Loans by 27,000b



Equations to calculate the effect of an injection of new money: