



THREE KINDS OF RESERVES

1. Required Reserves (RR)= the amount that must be held by law

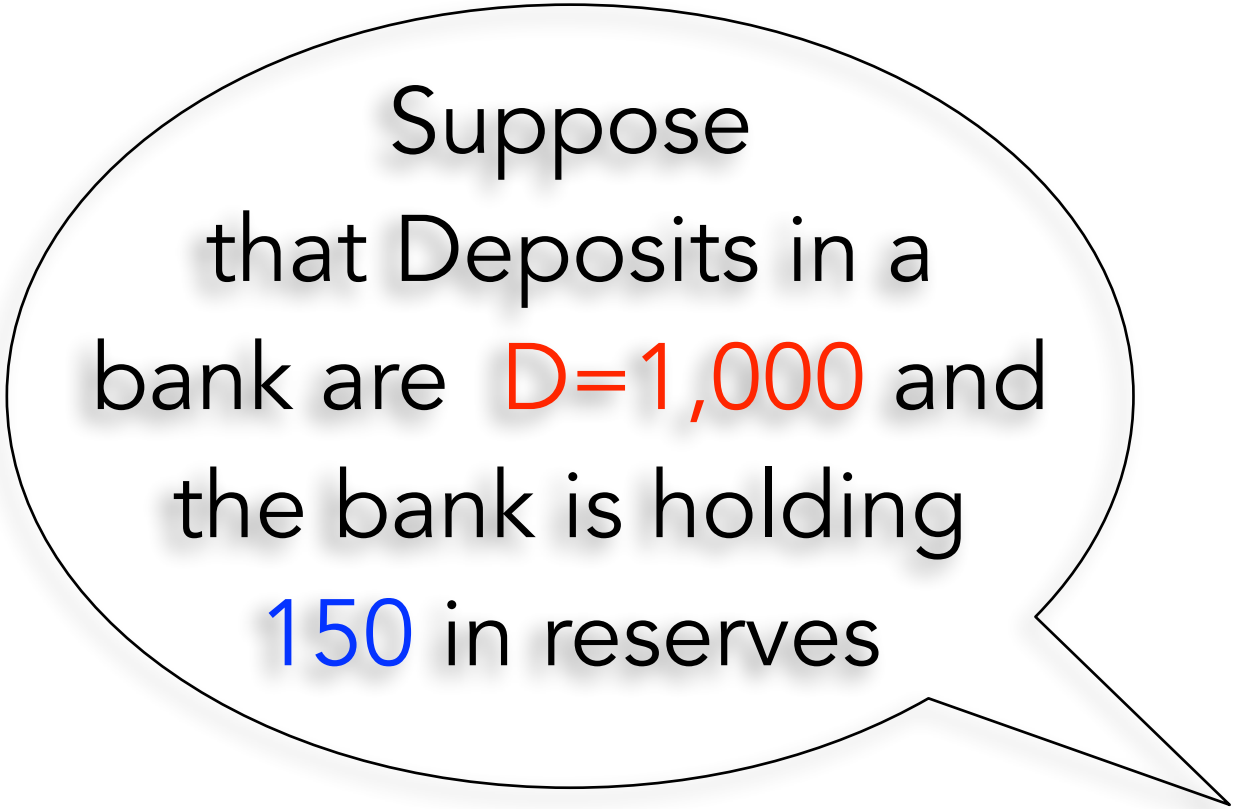
$$RR = r \times D$$

$$RR = 0.1 \times 1,000$$

2. Actual Reserves (AR) = the amount of reserves actually held by the bank.

These could be higher or lower than **RR**

3. **Excess Reserves (ER)**= the amount of
reserves held **above** **required reserves**



Suppose
that Deposits in a
bank are $D=1,000$ and
the bank is holding
 150 in reserves



AR = 150



$ER = 50$

$$r=0.1$$



$RR = 100$

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