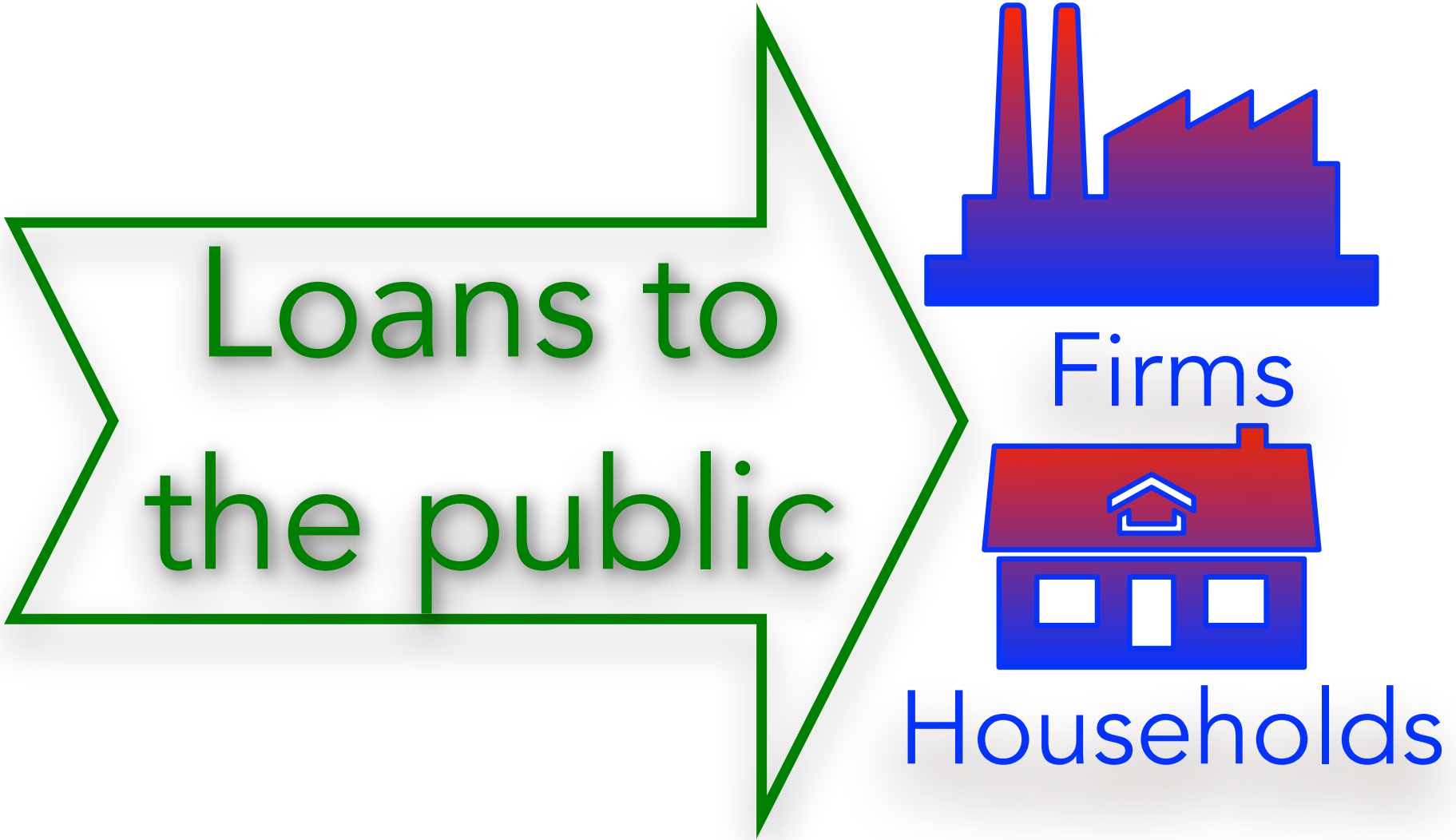
Bank A

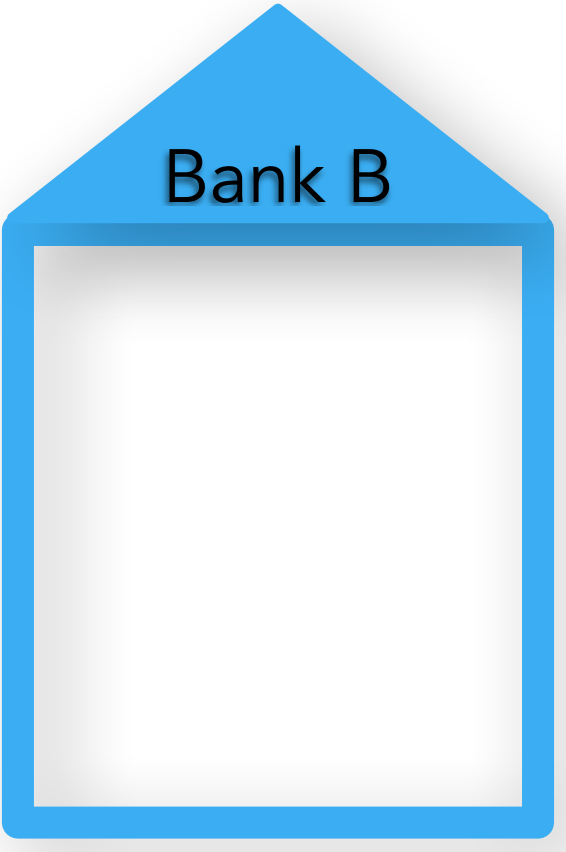
R = 10% of 3,000

=300b

Reserves

New
Money:
3,000b


Loans to
the public
Firms
Households


Bank B

R=10% of 2,700

=270b

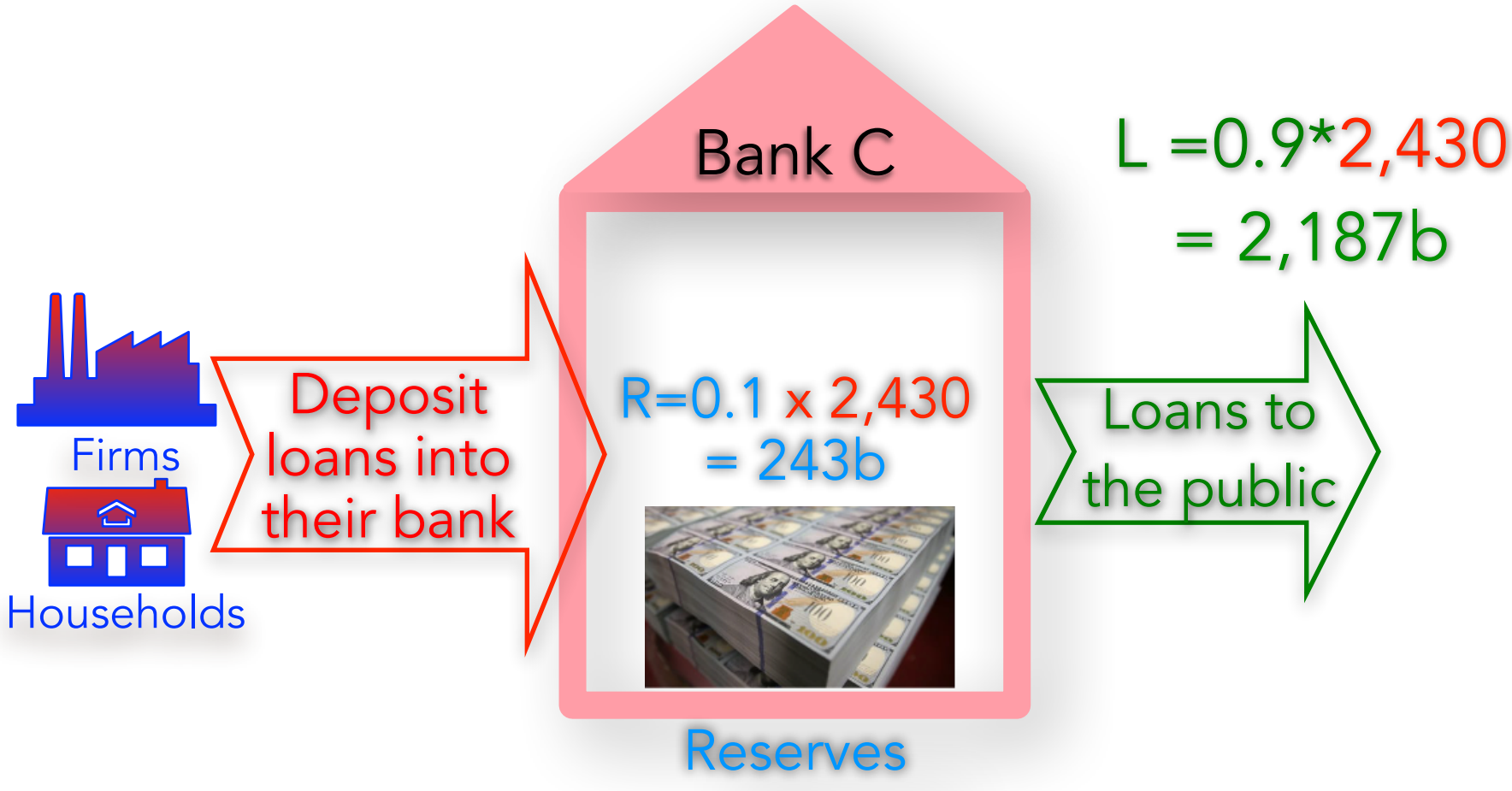
L =90% of 2,700

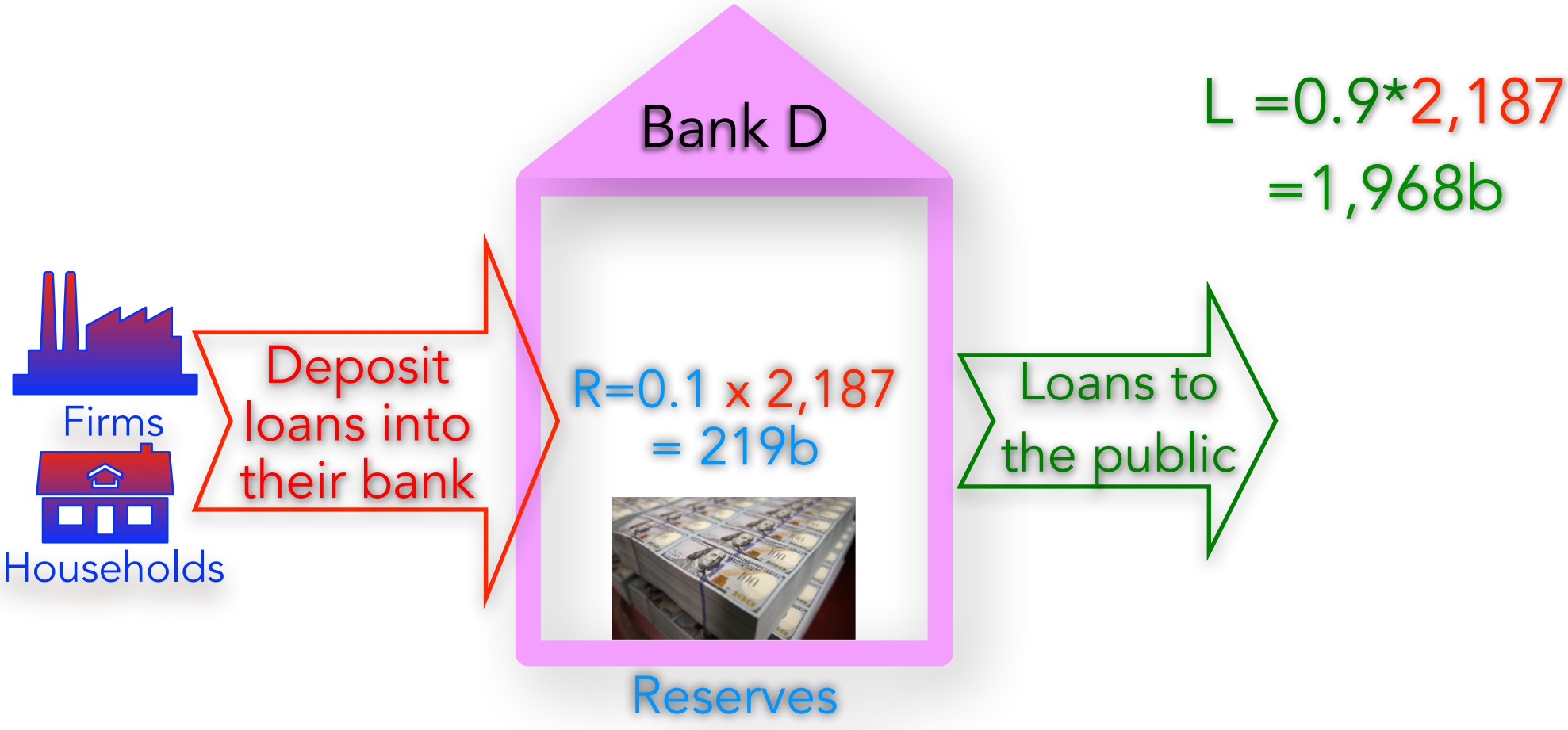
= 2,430b

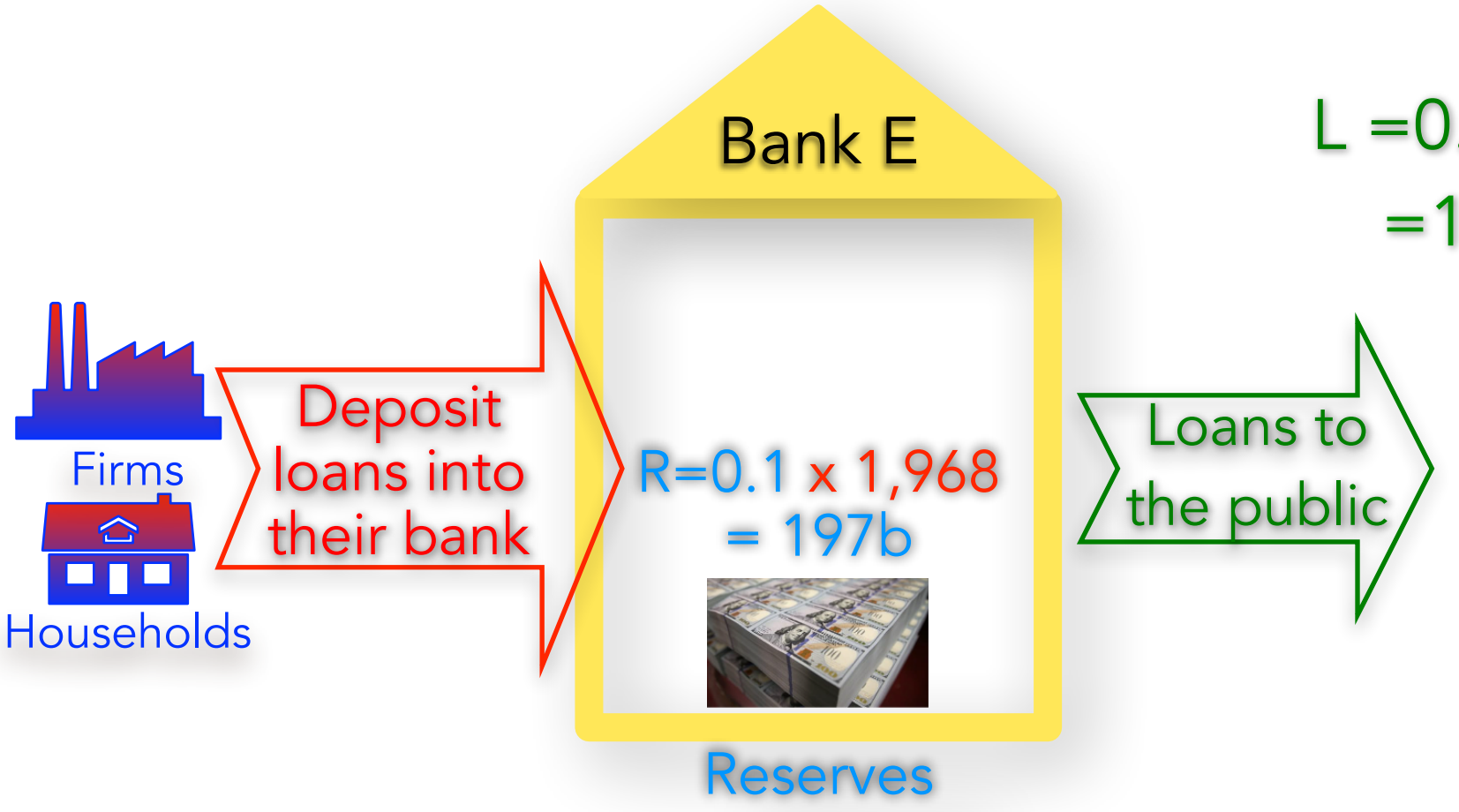
Reserves

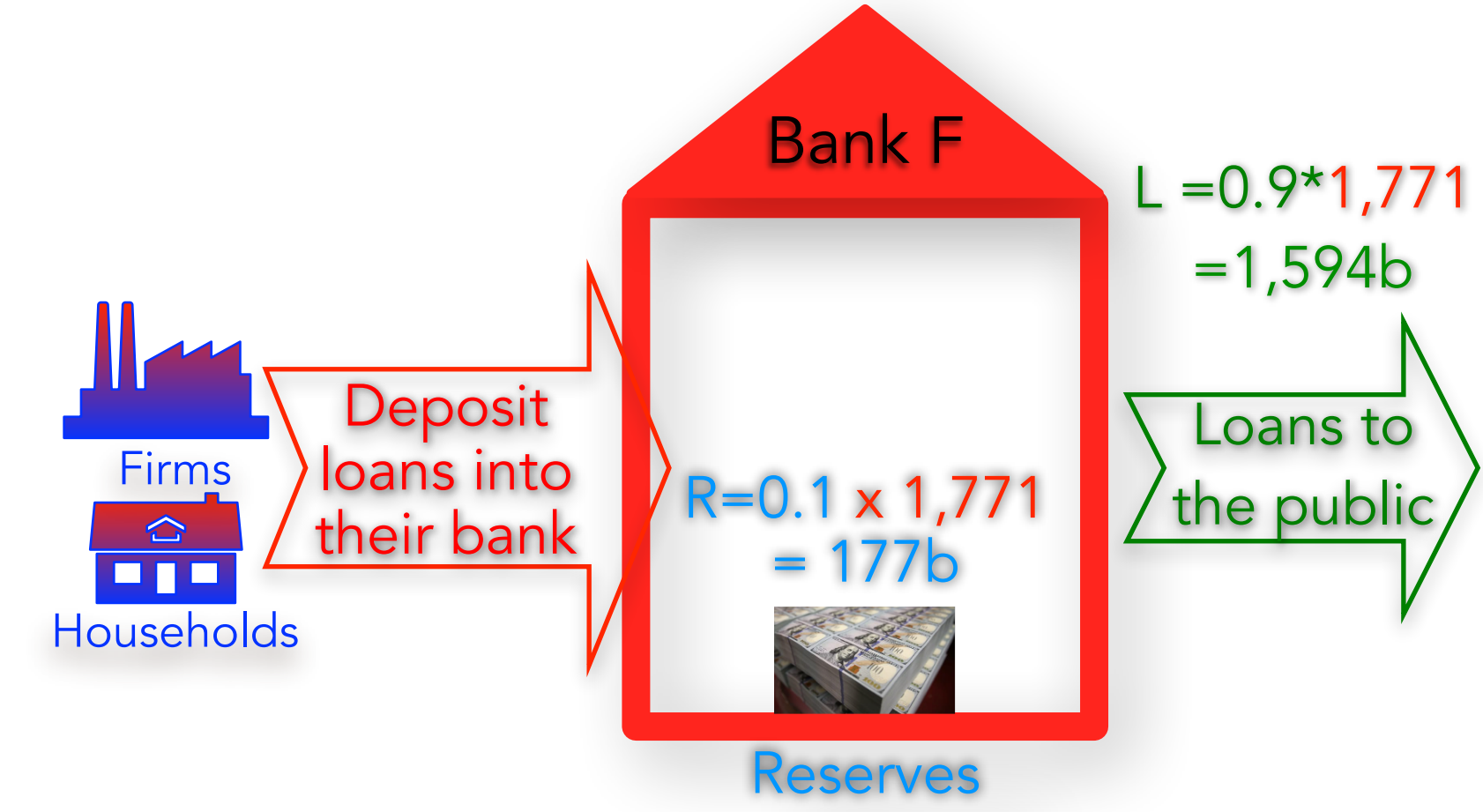
Loans to
the public

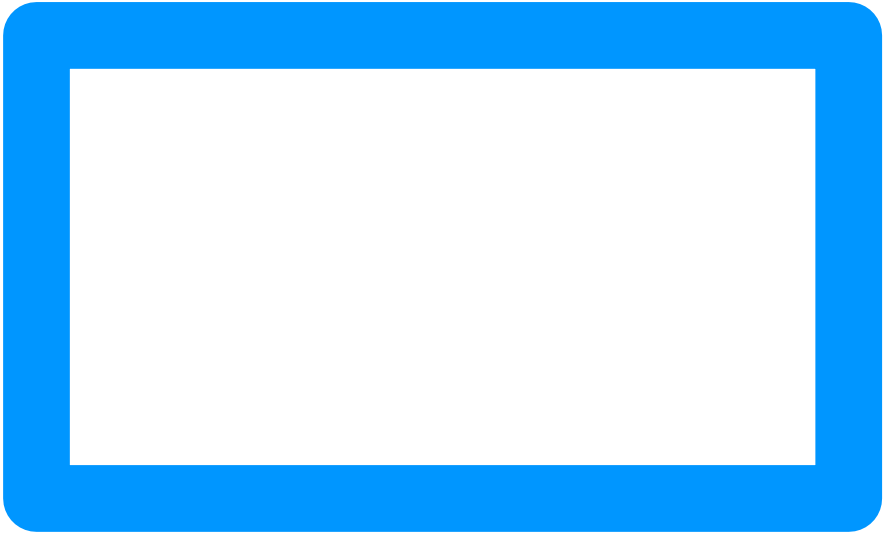
Deposit
loans into
their bank


Bank C
L =0.9*2,430
= 2,187b
Firms
Households
Deposit
loans into
their bank
R=0.1 x 2,430
= 243b
Loans to
the public
Reserves


Bank D
L =0.9*2,187
=1,968b
Firms
Households
Deposit loans into their bank
R=0.1 x 2,187
= 219b
Loans to the public
Reserves


Bank E
L =0.9*1,968
=1,771b
Firms
Households
Deposit loans into their bank
R=0.1 x 1,968
= 197b
Loans to the public
Reserves


Bank F
L =0.9*1,771
=1,594b
Firms
Households
Deposit
loans into
their bank
R=0.1 x 1,771
= 177b
Loans to
the public
Reserves



L = 90% of 3,000b

= 2,700

W

e

W

u

S

e

e

u

a

t

n

S

C

a

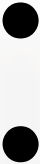
C

u

a

t

e

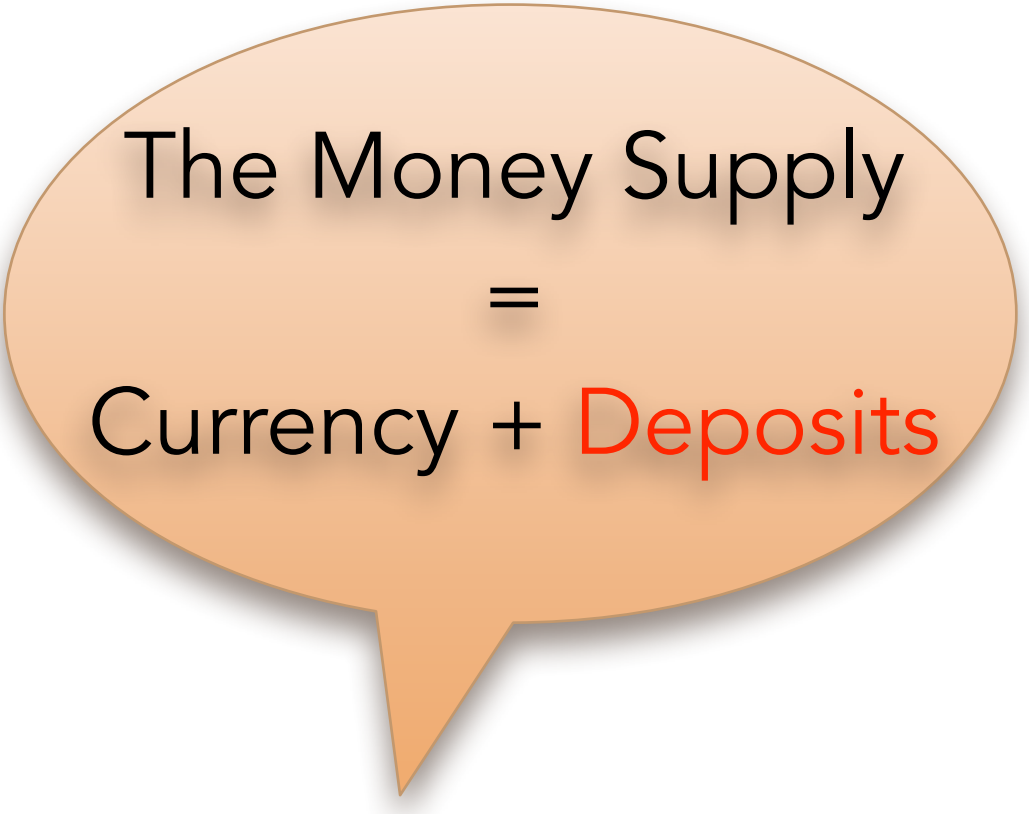


Total Loans made
by all banks

Total Deposits in all checking accounts

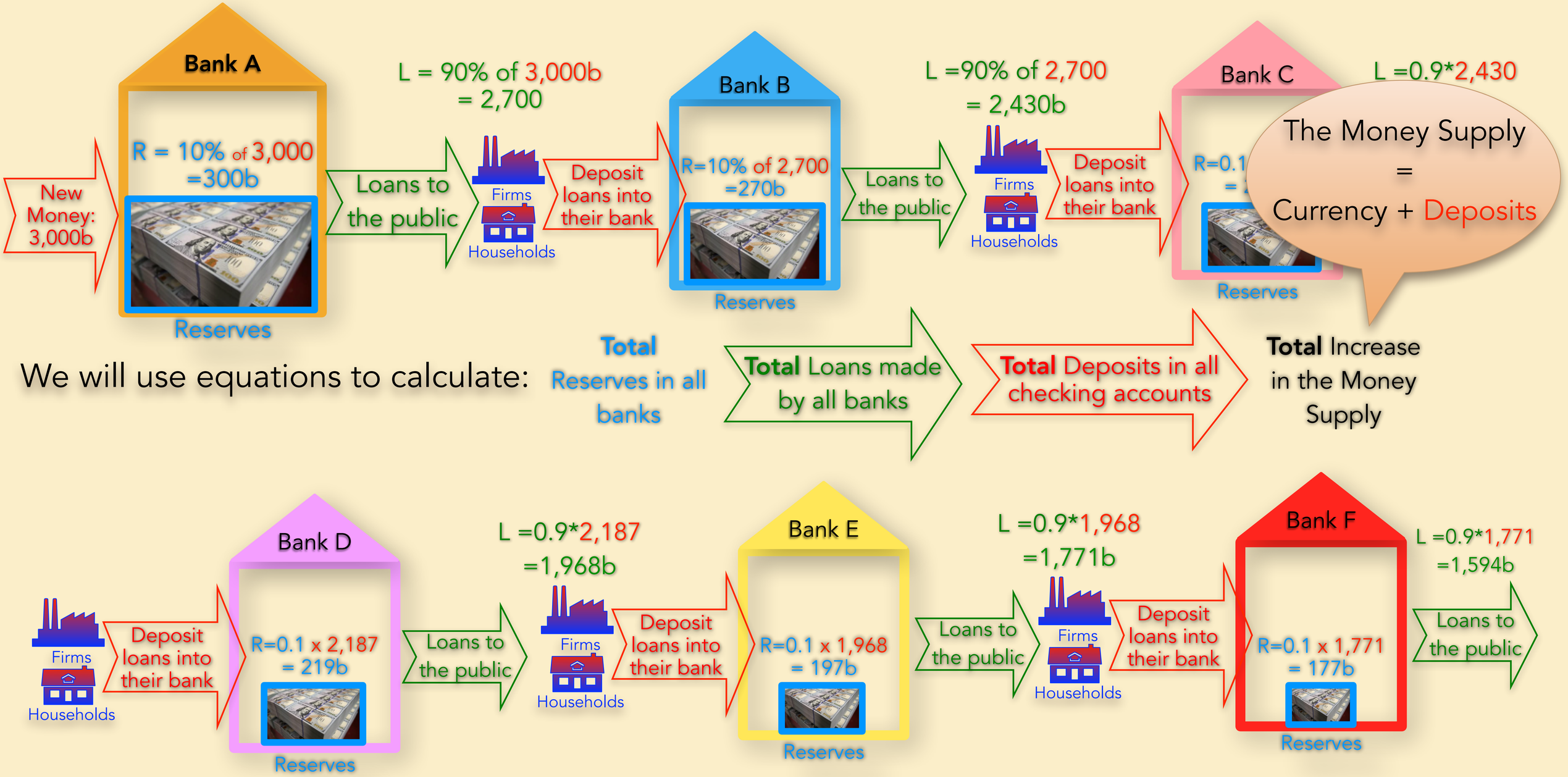
Total

Reserves in all banks


The Money Supply
=
Currency + Deposits

Total Increase in the Money Supply

We will use equations to calculate:


Bank A
R = 10% of 3,000
=300b
Reserves
New Money: 3,000b
Loans to the public
L = 90% of 3,000b
= 2,700
Firms
Households
Deposit loans into their bank
Bank B
R=10% of 2,700
=270b
Reserves
Loans to the public
L =90% of 2,700
= 2,430b
Firms
Households
Deposit loans into their bank
Bank C
R=0.1
=
Reserves
L =0.9*2,430
The Money Supply
=
Currency + Deposits
We will use equations to calculate:
Total Reserves in all banks
Total Loans made by all banks
Total Deposits in all checking accounts
Total Increase in the Money Supply
Firms
Households
Deposit loans into their bank
Bank D
R=0.1 x 2,187
= 219b
Reserves
Loans to the public
L =0.9*2,187
=1,968b
Firms
Households
Deposit loans into their bank
Bank E
R=0.1 x 1,968
= 197b
Reserves
Loans to the public
L =0.9*1,968
=1,771b
Firms
Households
Deposit loans into their bank
Bank F
R=0.1 x 1,771
= 177b
Reserves
L =0.9*1,771
=1,594b
Loans to the public