



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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A BANK'S "T" ACCOUNT