



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



$ER = 50$

$$r=0.1$$



$RR = 100$

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

THREE KINDS OF RESERVES

$$r=0.1$$

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

$$RR = 100$$

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

$$RR = r \times D \quad RR = 0.1 \times 1,000$$

$$AR = 150$$

- These could be higher or lower than **RR**
3. **Excess Reserves (ER)**= the amount of reserves held **above required reserves**

$$ER = 50$$

A BANK'S "T" ACCOUNT

Assets	
Reserves	
Loans	
Securities	
Other	
Total	
Liabilities and Capital	
Deposits	
Borrowings	
Capital	
Other	
Total	