$$D = 700$$

Currency = 800b

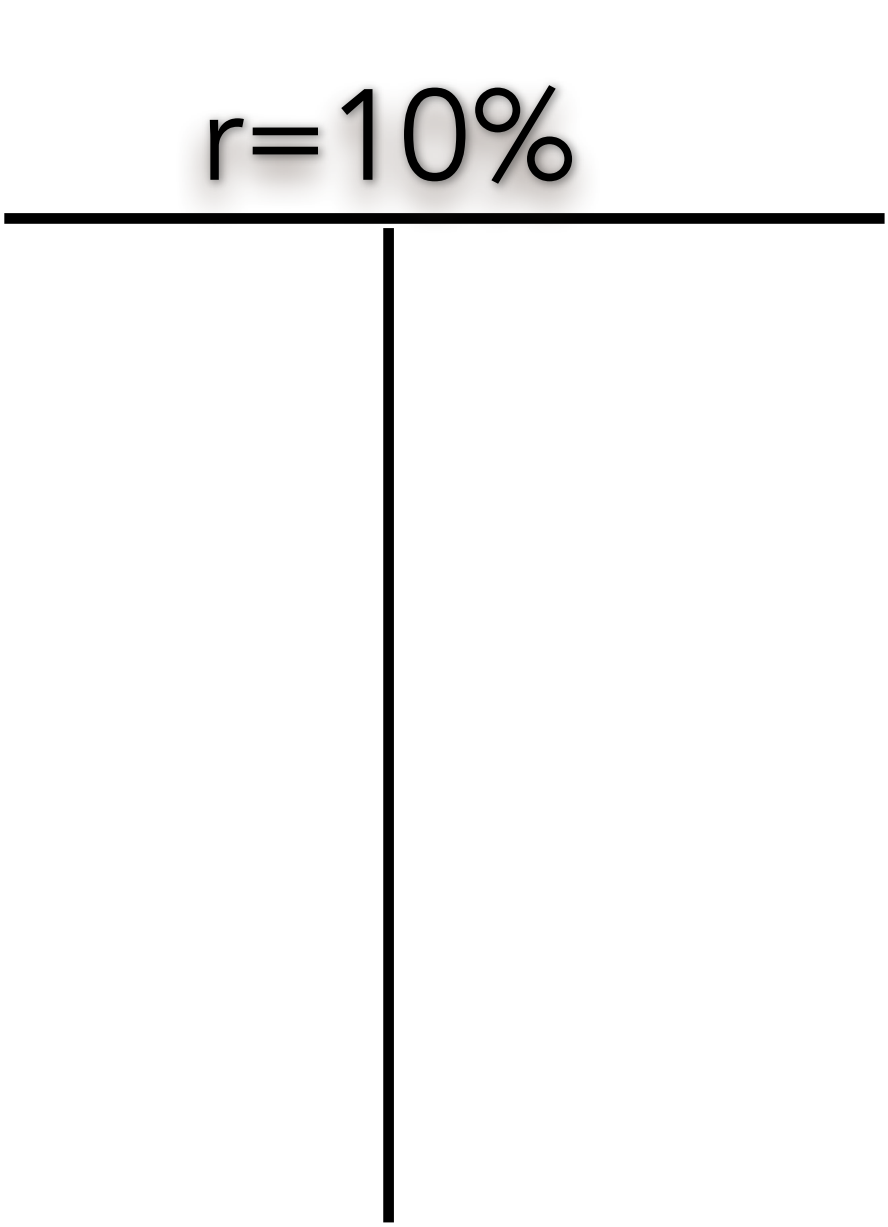
r=10%

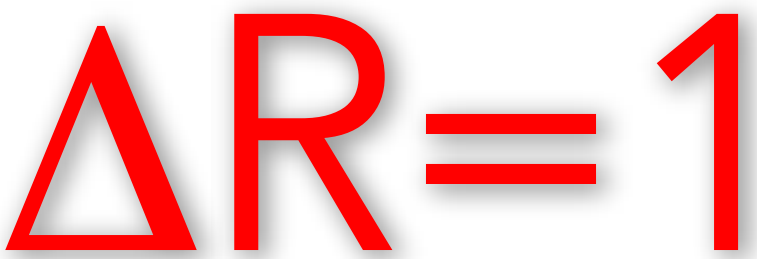
$$R=0.1*700$$

L= 630

Suppose that 1b of the 800b held by the public as currency outside the banking system is now deposited into the banking system

$$\Delta D = \Delta R \times (1/r)$$


r=10%


ΔR=1

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

$$M^S = 800 + 700$$

$$M^S = 1{,}500$$

New R = 70+1

New D =700 +10

New L = 630+9

New $M^s = 1{,}500+9$

$$\Delta M^s = \Delta \text{ Currency } + \Delta D$$

+9

$$R = r \times D$$

$$L = D - R$$

M^s = Currency + Deposits


+10

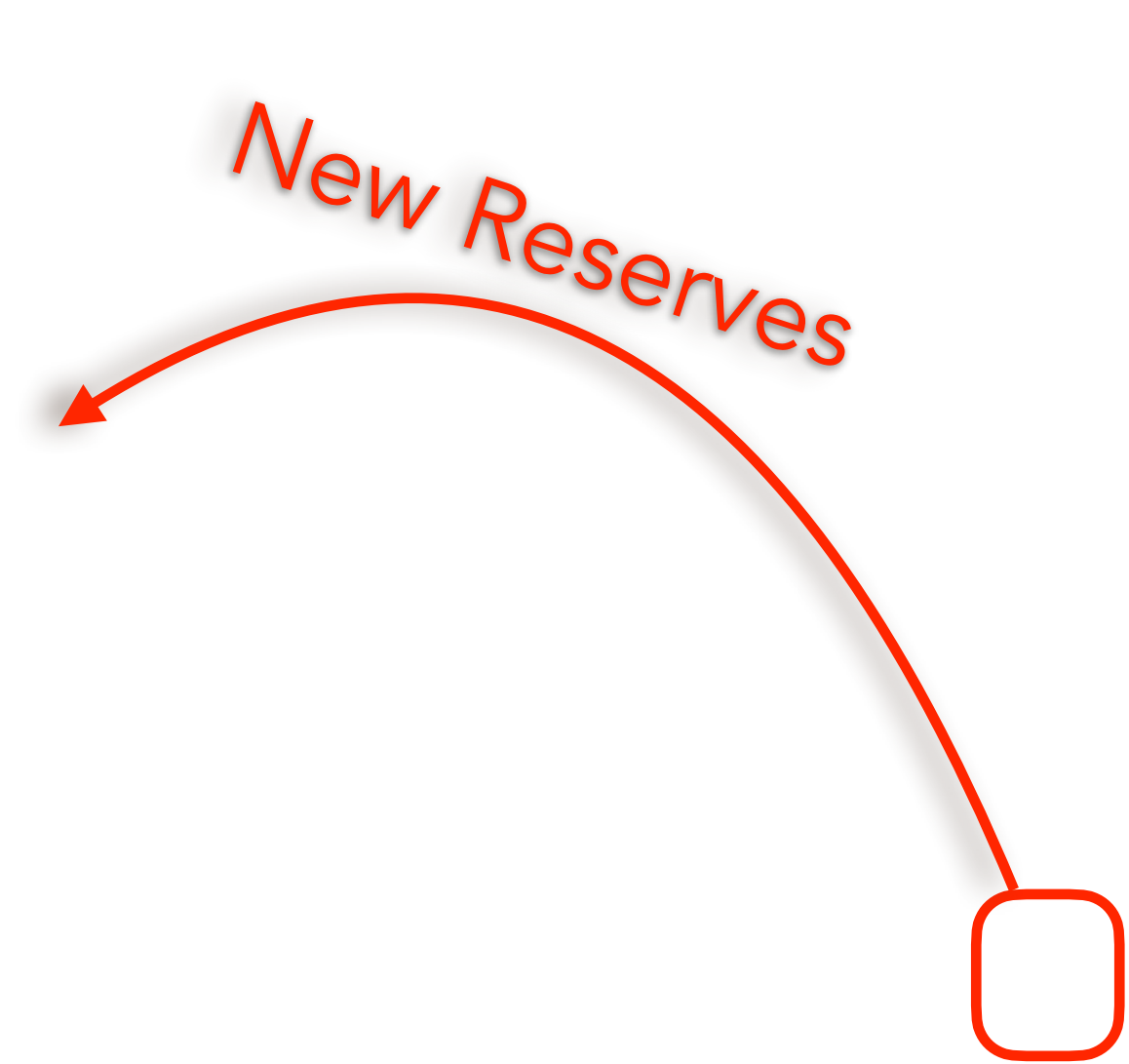
Example: The following values are given

Calculate: Required reserves, Loans and the Money Supply

R=70

L= 700 - 70

Calculate: New Reserves, New Loans, New Deposits and the New Money Supply


New Reserves

$$\Delta D = 1 \times (1/0.1) = 10$$

$$\Delta L = 10 - 1 = 9$$

New R = 71

New L = 639

New D =710

New $M^s = 1{,}509$

Before

r=10%

R=70	D = 700

L= 630

$M^s = 800 + 700$

$M^s = 1{,}500$

After

r=10%

R=71 | D = 710

L= 639

$M^s = 799 + 710$

$M^s = 1{,}509$

The amount of currency held by the public decrease by 1b

Banks will now multiply this 1b as new loans

Example: The following values are given

Calculate: Required reserves, Loans and the Money Supply

Before

r=10%

R=70	D = 700

L= 630

M^s = 800 + 700

M^s = 1,500

Suppose that 1b of the 800b held by the public as currency outside the banking system is now deposited into the banking system

Calculate: New Reserves, New Loans, New Deposits and the New Money Supply

After

r=10%

R=71	D = 710

L= 639

M^s = 799 + 710

M^s = 1,509

Example: The following values are given