THREE KINDS OF RESERVES

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

 $RR = r \times D$

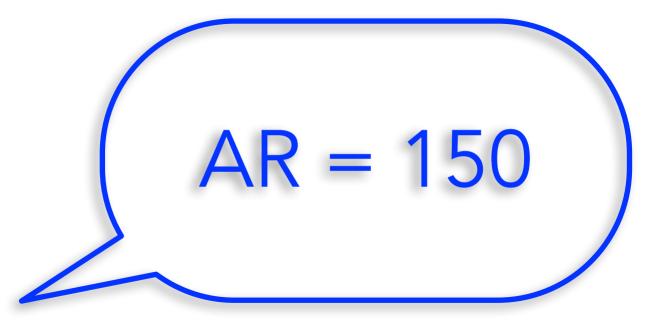
 $RR = 0.1 \times 1,000$

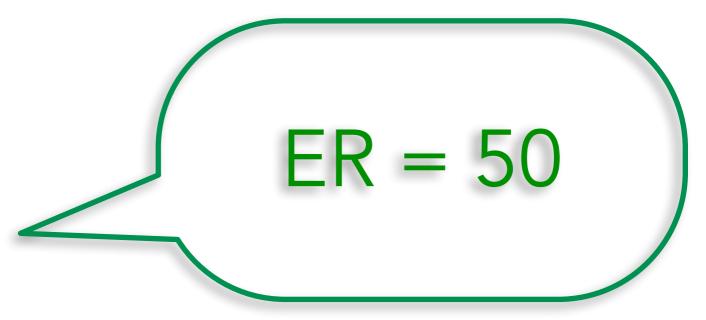
2. Actual Reserves (AR)= the amount of reserves actually held by the bank.

These could be higher or lower than RR

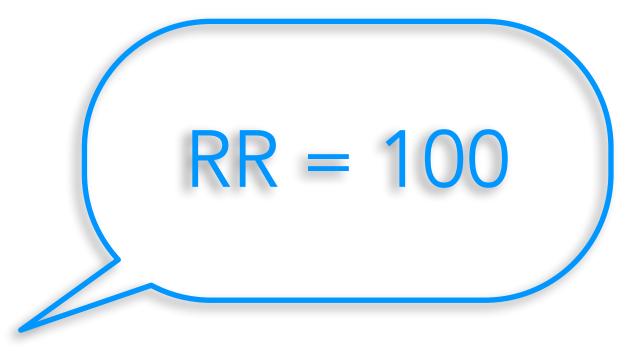
3. Excess Reserves (ER)= the amount of reserves held above required reserves

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





1:0=7



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

THREE KINDS OF RESERVES

1.0=7

RR = 100

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

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

- 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

AR = 150

ER = 50

A BANK'S "T" ACCOUNT