







D = 700

Currency = 8000

$r = 10\%$

$RR = 0.1 * 700$

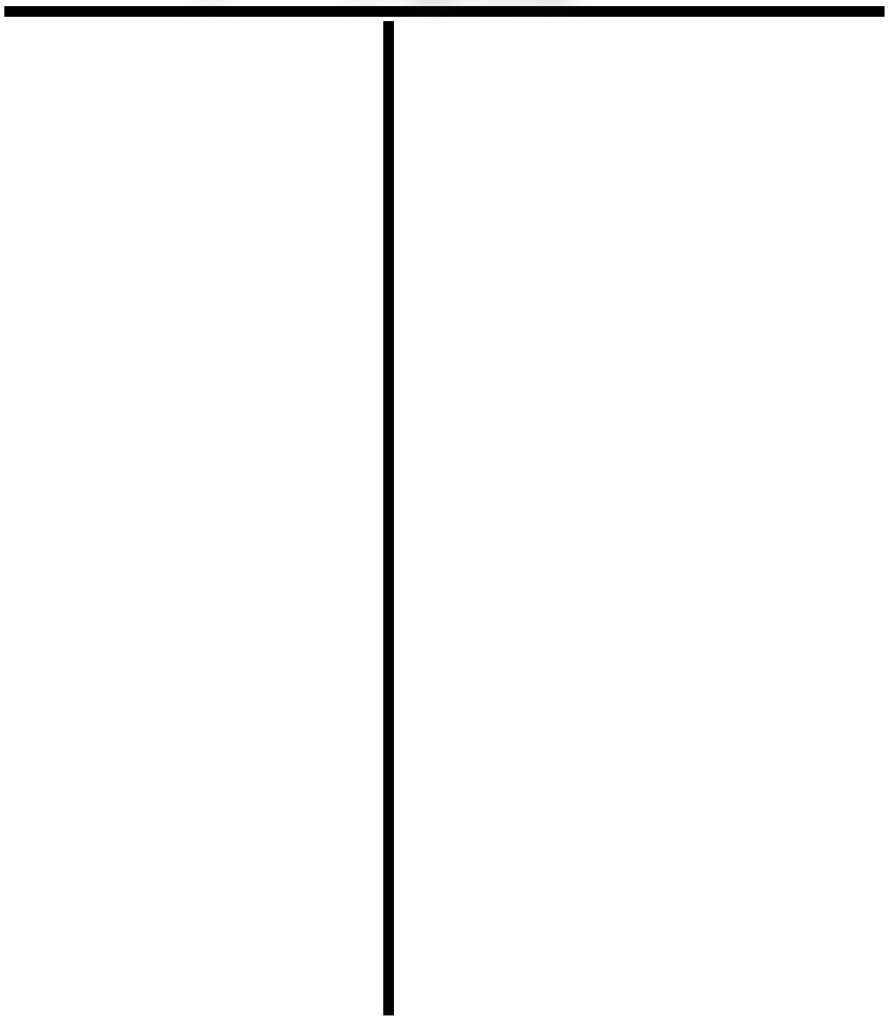
**L = 620**



Suppose banks decide to hold only the amount of  
Required Reserves (No excess Reserves)

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

$r=10\%$



$$\Delta R = 0$$

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

$$M^s = 800 + 700$$

$$M^s = 1,500$$

ER

=

80

NewD = 7000 + 1000



NewL = 620 + 100

New Ms = 1,500 + 100

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

+100

$RR = r \times D$

**L = D - R**

$$M^s = \text{Currency} + \text{Deposits}$$

+0



+100

Example: The following values are  
given

Calculate: Loans and the Money Supply

RR=70

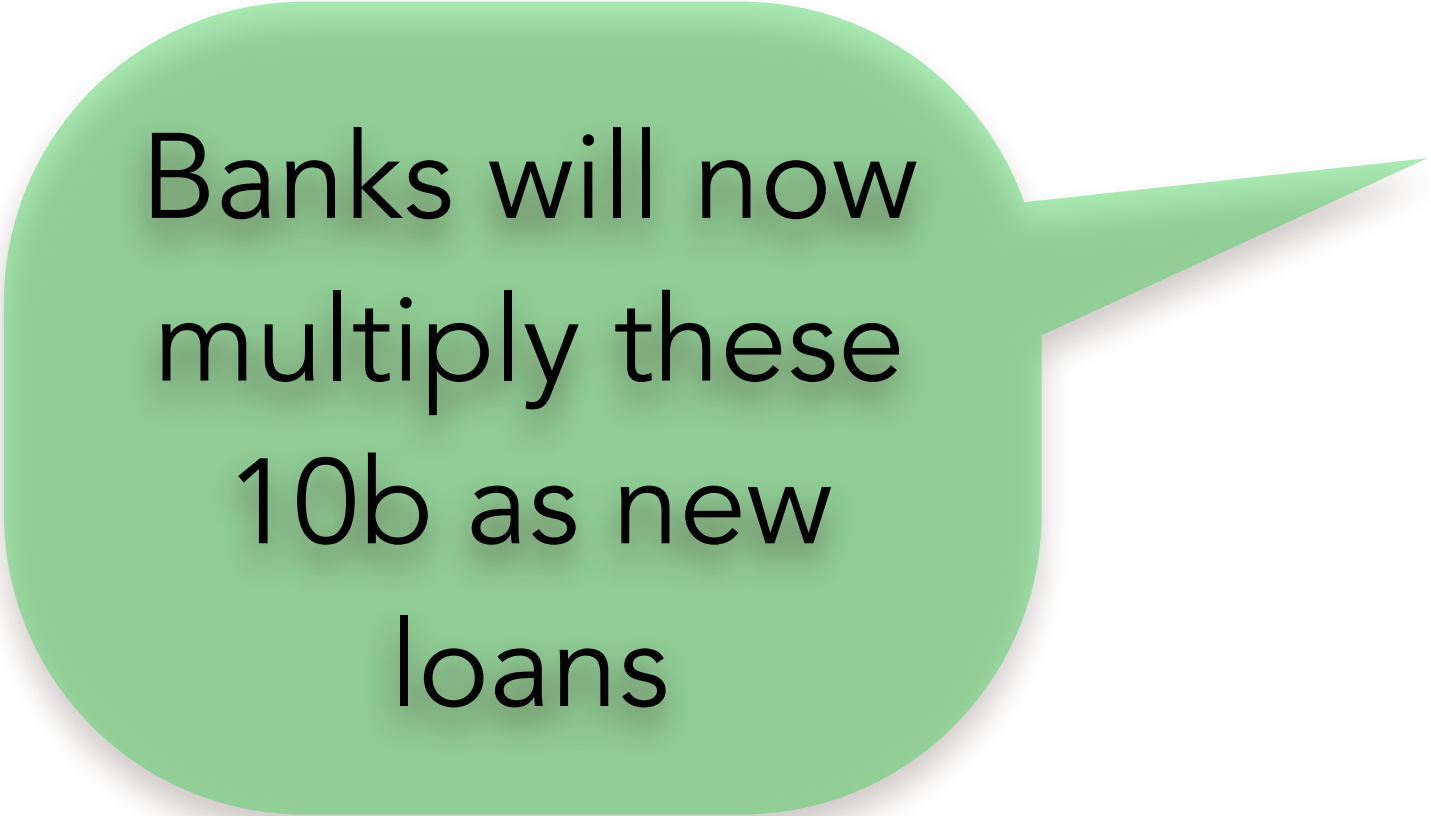
**L = 700 - 80**

Calculate: Required Reserves, Excess  
Reserves, New Loans, new Deposits and the  
New Money Supply

$$\Delta D = 10 \times (1/0.1) = 100$$

$$\Delta L = 100 - 0 = 100$$





Banks will now  
multiply these  
10b as new  
loans

New L = 720

NewD == 8000

New Ms = 1,600

AR = 80

ER = 80 - 70

ER=10

Before

$r=10\%$

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$R=80$

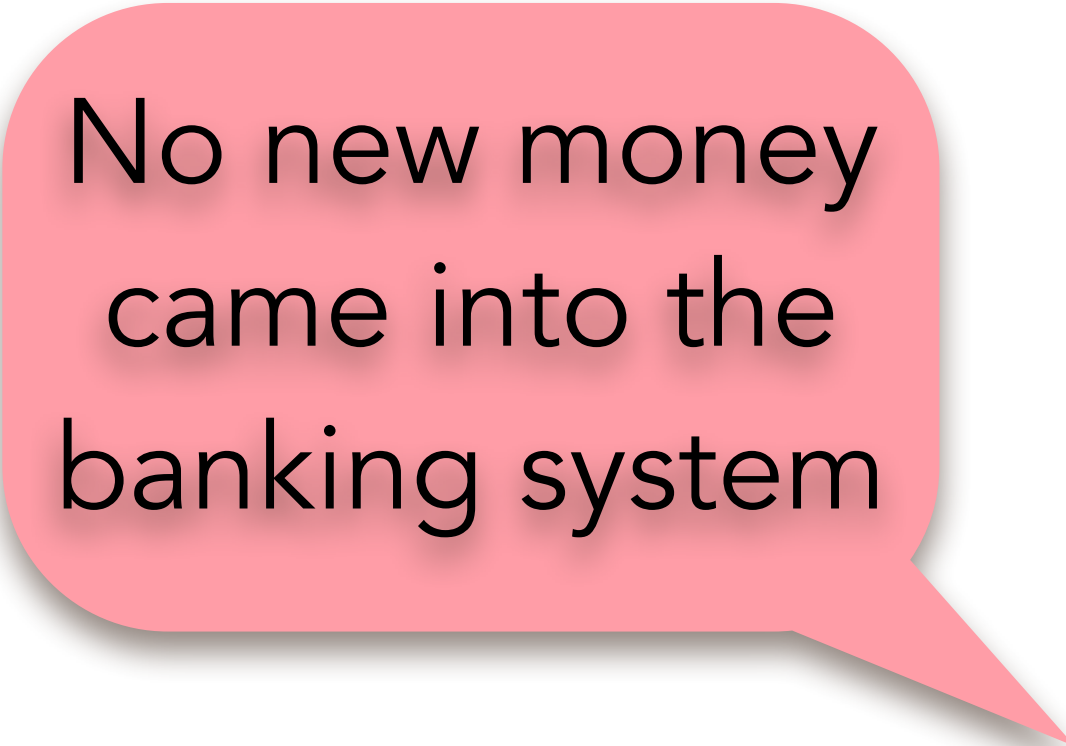
$D = 700$

$L = 620$

$M^s = 800 + 700$

$M^s = 1,500$





No new money  
came into the  
banking system

After  
 $r=10\%$

$R=80$	$D=800$
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$L=720$
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$$M^s = 800 + 800$$

$$M^s = 1,600$$

Example: The following values are given

Calculate: Loans and the Money Supply

Before  
 $r=10\%$

$R=80$	$D = 700$
$L = 620$	
$M^s = 800 + 700$	
$M^s = 1,500$	

Suppose banks decide to hold only the amount of Required Reserves (**No excess Reserves**)

Calculate: **Required Reserves**, **Excess Reserves**, New Loans, new Deposits and the New Money Supply

After  
 $r=10\%$

$R=80$	$D = 800$
$L = 720$	
$M^s = 800 + 800$	
$M^s = 1,600$	

Currency = 1,000b

r=20%



D = 1,200

