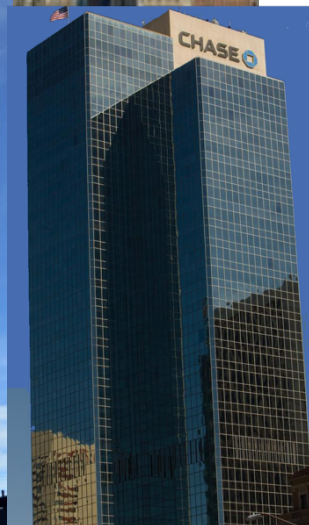
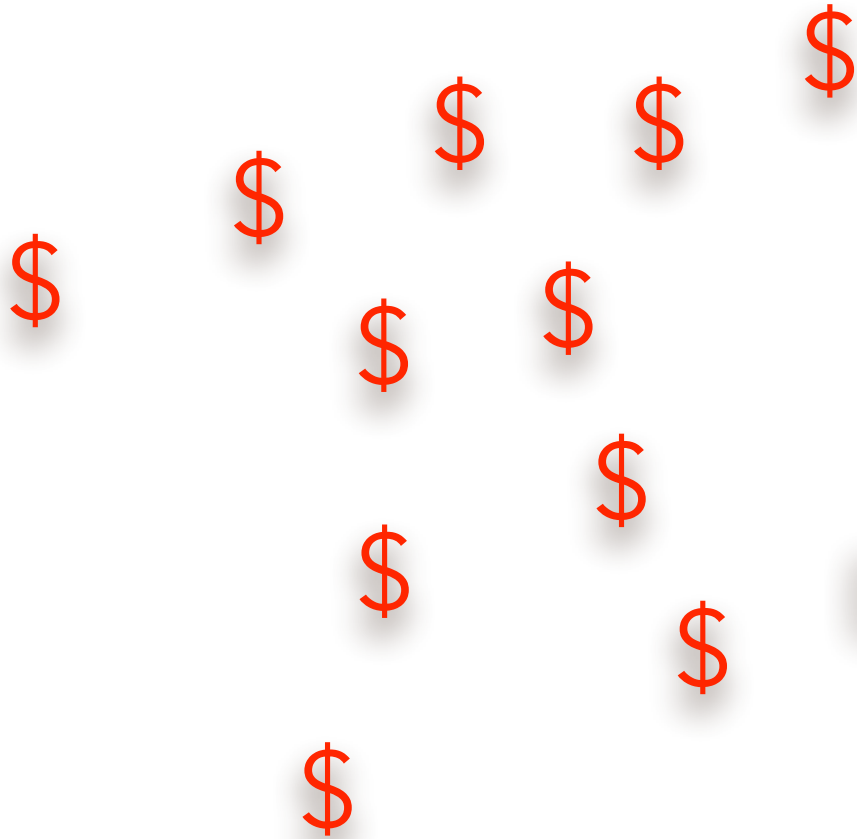
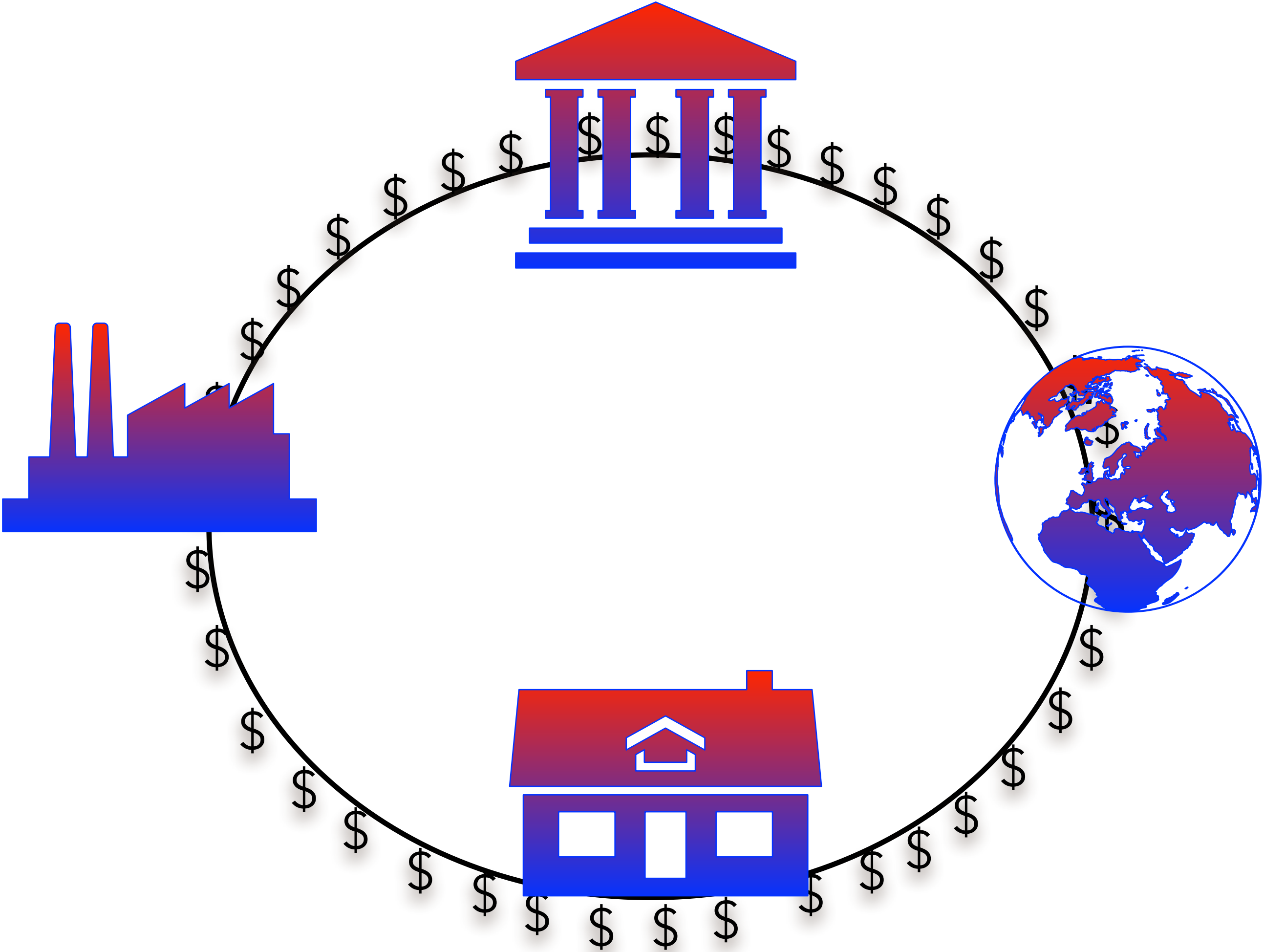


What happens  
when new money  
comes in?





The Federal Reserve  
Bank **creates new money**



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$$\Delta D = 3,000 \left( \frac{1}{1 - 0.9} \right)$$



Deposits increase by a  
multiple  $\left( \frac{1}{1 - 0.9} \right)$   
of the new money injected

0.9 is the fraction of Deposits which banks are allowed to lend: 90%

1-0.9 is the fraction ( $r$ ) of Deposits which banks must keep in reserve:  $r=10\%$

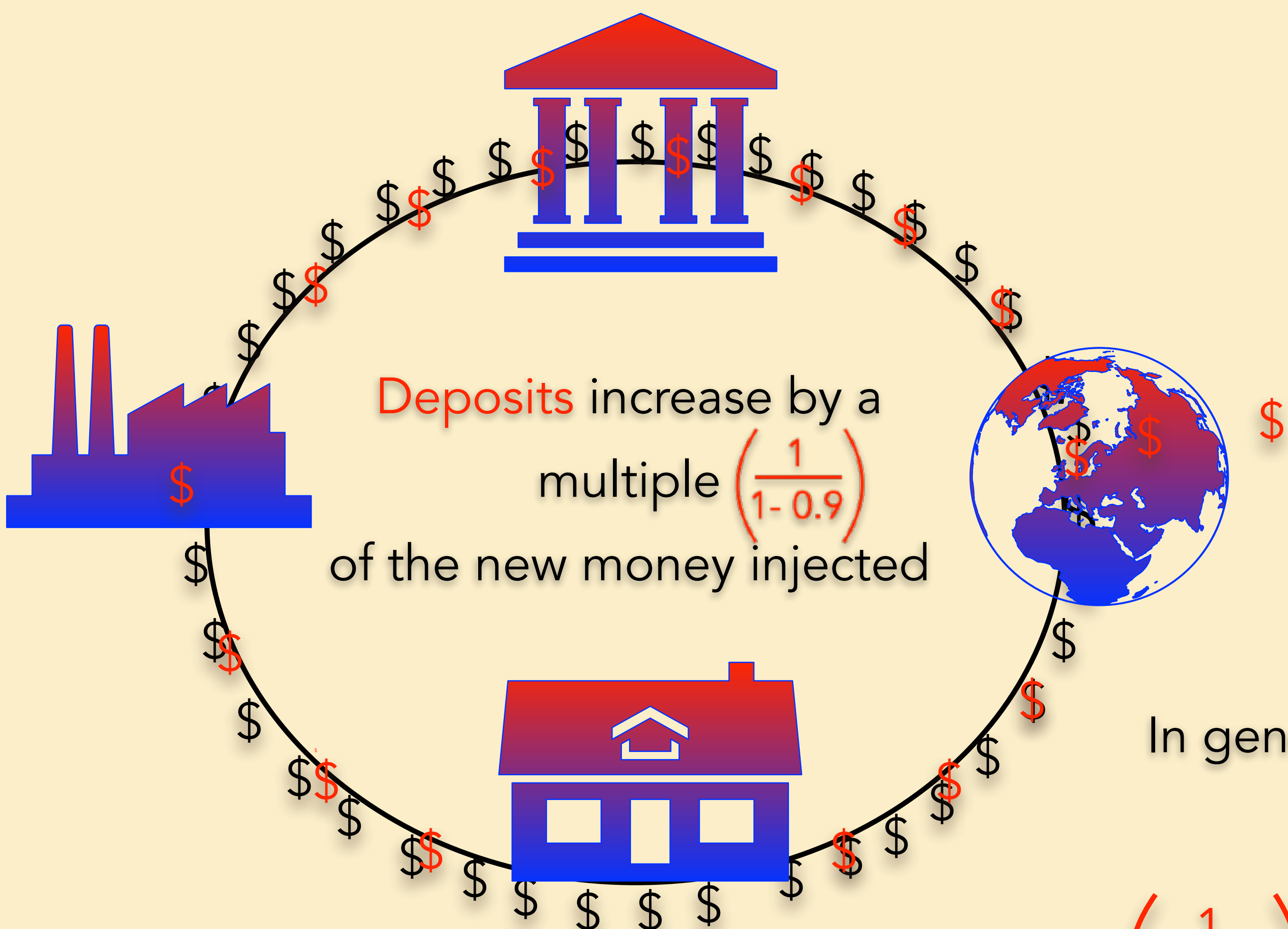
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$$\left( \frac{1}{r} \right)$$

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$$\Delta D = \text{New Money} \left( \frac{1}{r} \right)$$





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