




Deposits



Loans



Banks are required  
to hold **10%** of  
depositor's money  
in Reserves



# Required Reserves Ratio

$r = 10\%$





$$R = r \times D$$

L

=

D

-

R



Banks are  
allowed to lend  
**90%** of  
Depositor's  
money!

In the U.S. on any given day only 10% of total deposits is needed to pay for withdrawals

Reserves



In the U.S. on any given day only 10% of total deposits is needed to pay for withdrawals

$D$   
Deposits

Banks are required to hold **10%** of depositor's money in Reserves

$$R = r \times D$$

Reserves

Banks are allowed to lend **90%** of Depositor's money!

$L$   
Loans  $L = D - R$

$r = 10\%$

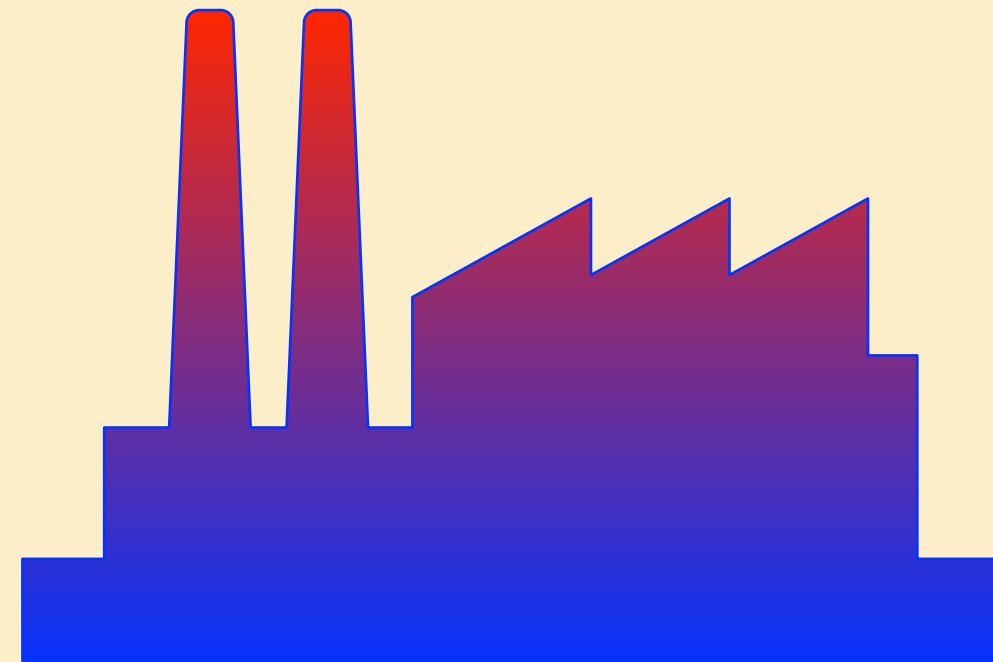
Required Reserves Ratio



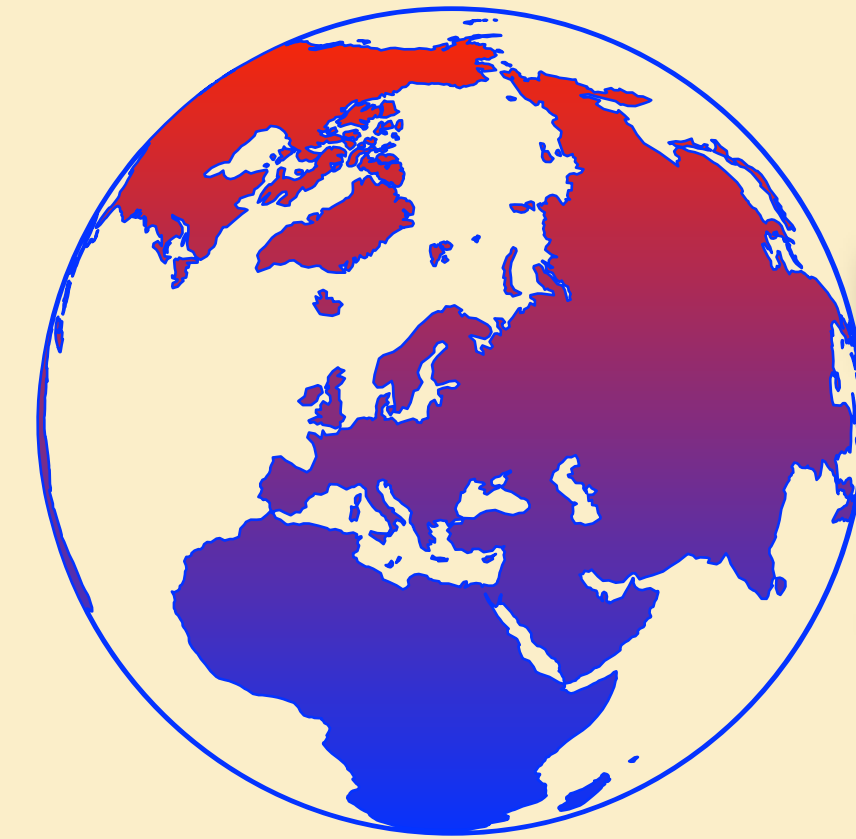




Government



Firms



Rest of  
the  
World

Households

