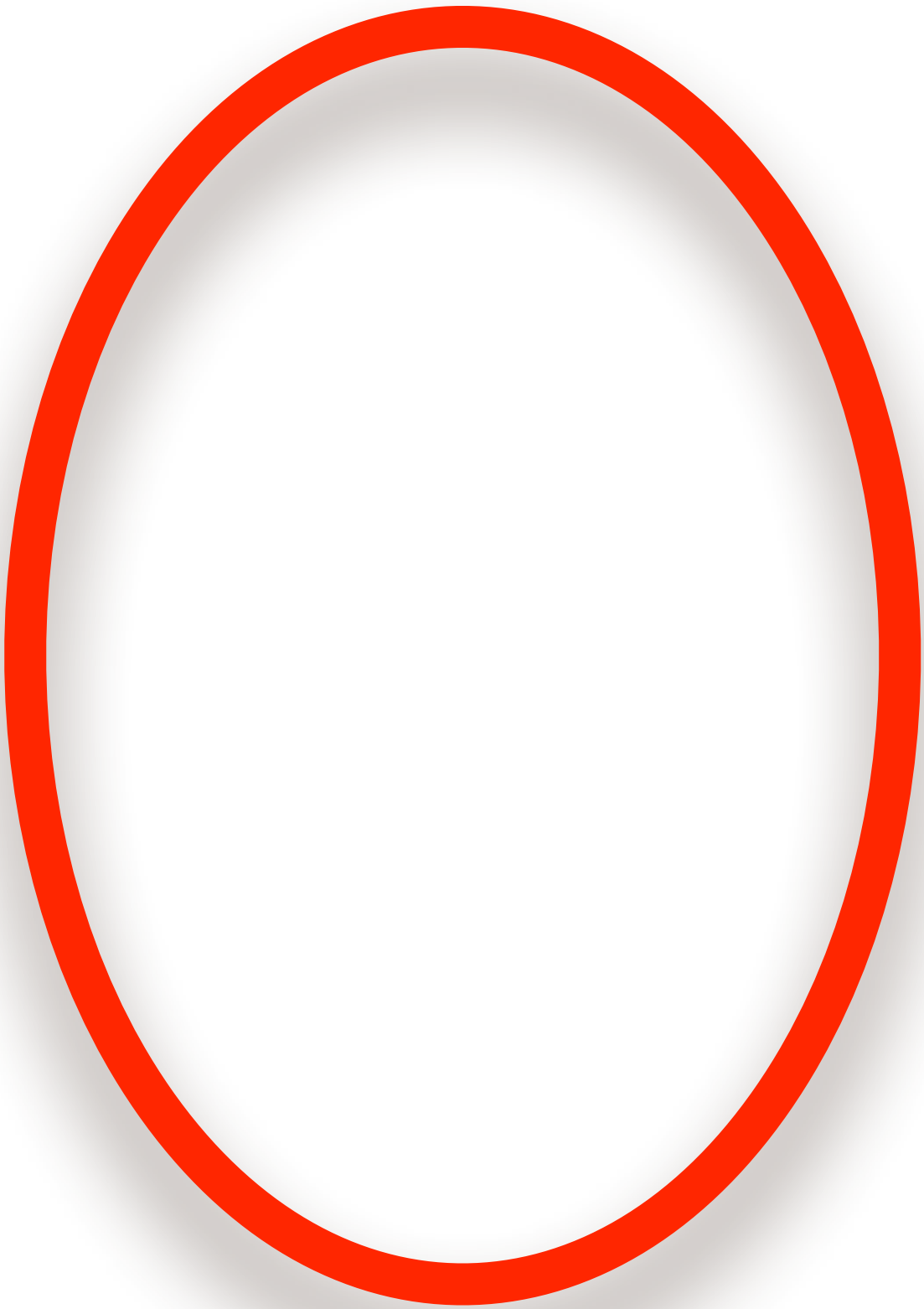
Banks Create Money by Issuing Loans

$$\Delta D = \text{New Money} \times \frac{1}{r}$$

ΔR

Money
Multiplier



Multiple by which deposits increase for each dollar deposited in a bank

becomes

Reserves

Create new
checking account
deposits

Δ D =
x
1
r

The Fed Creates Money by “printing” new money

Later we will revise, because the Fed no longer needs to print money to create it

The Fed Creates Money by "printing" new money

Banks Create Money by Issuing Loans

$$\Delta D = \text{New Money} \times \frac{1}{r}$$

becomes Reserves

$$\Delta D = \Delta R \times \frac{1}{r}$$

Money Multiplier

Multiple by which deposits increase for each dollar deposited in a bank