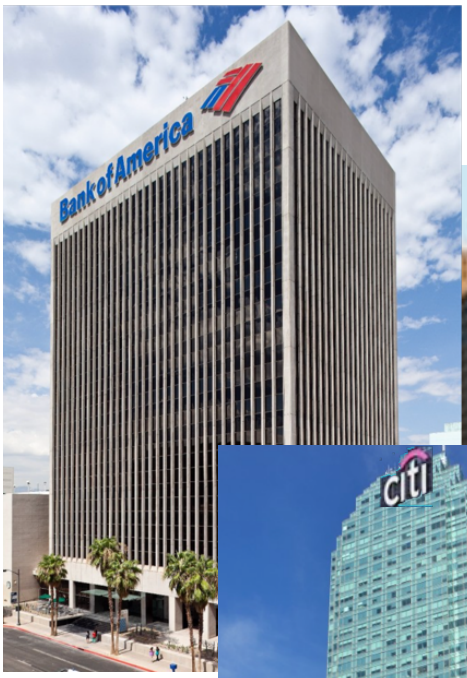

What happens when new money comes in?


Bank of America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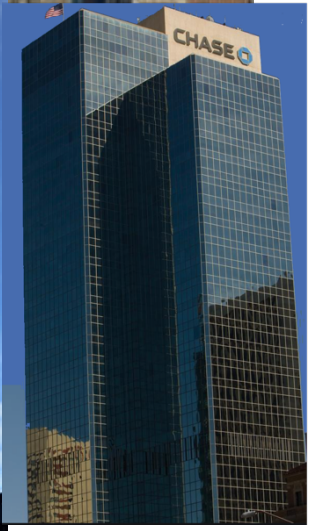
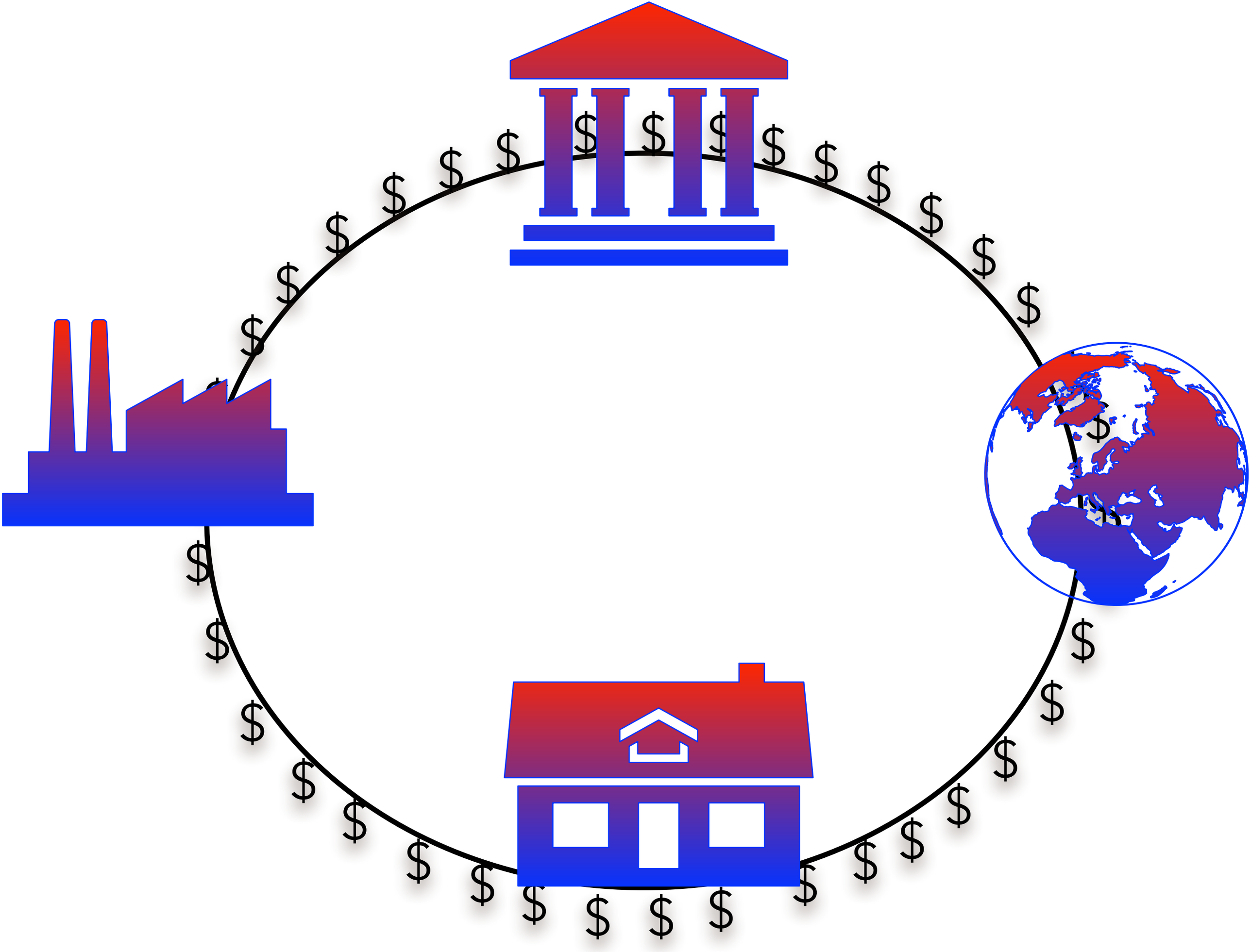
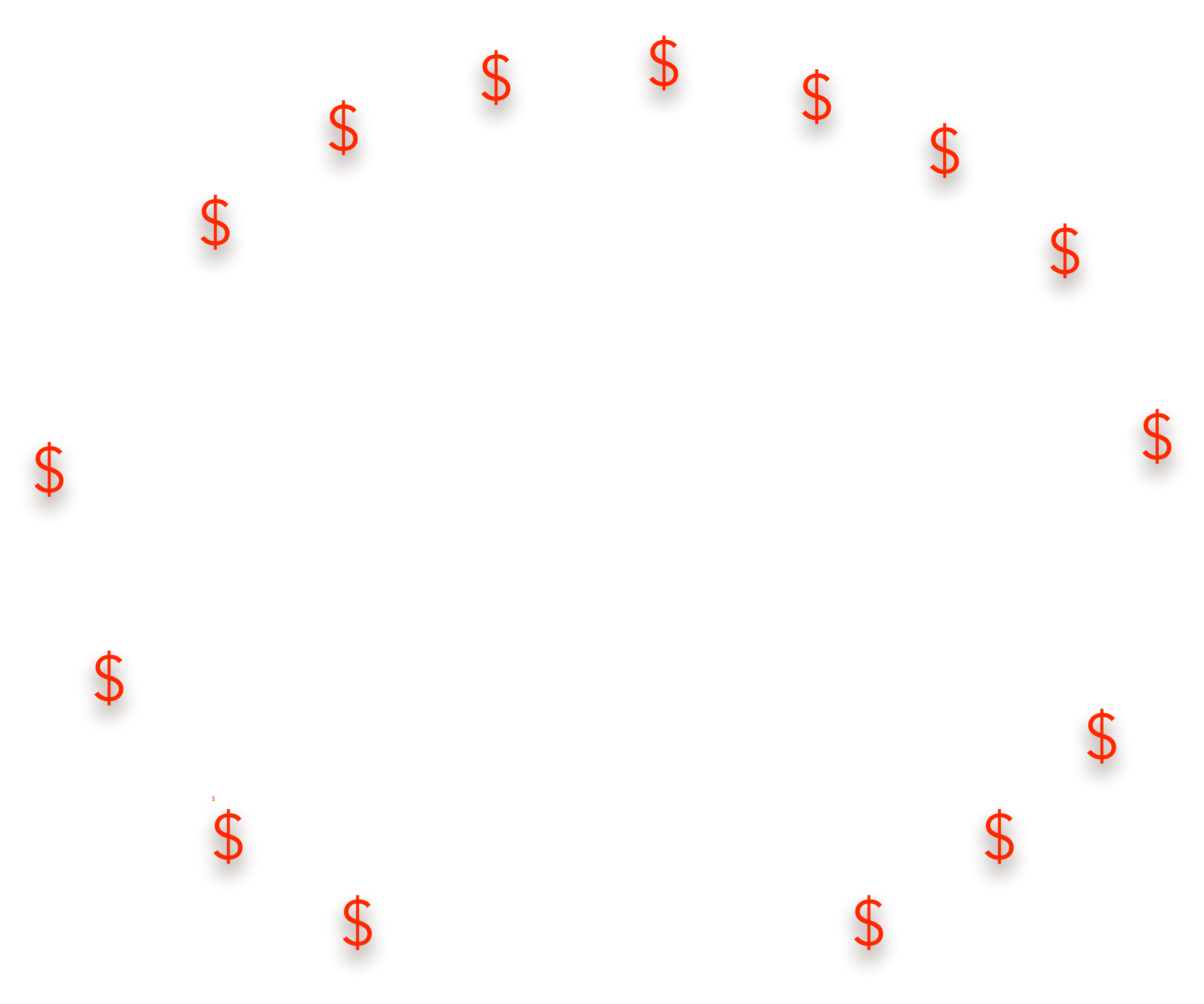

CHASE

The Federal Reserve Bank creates new money







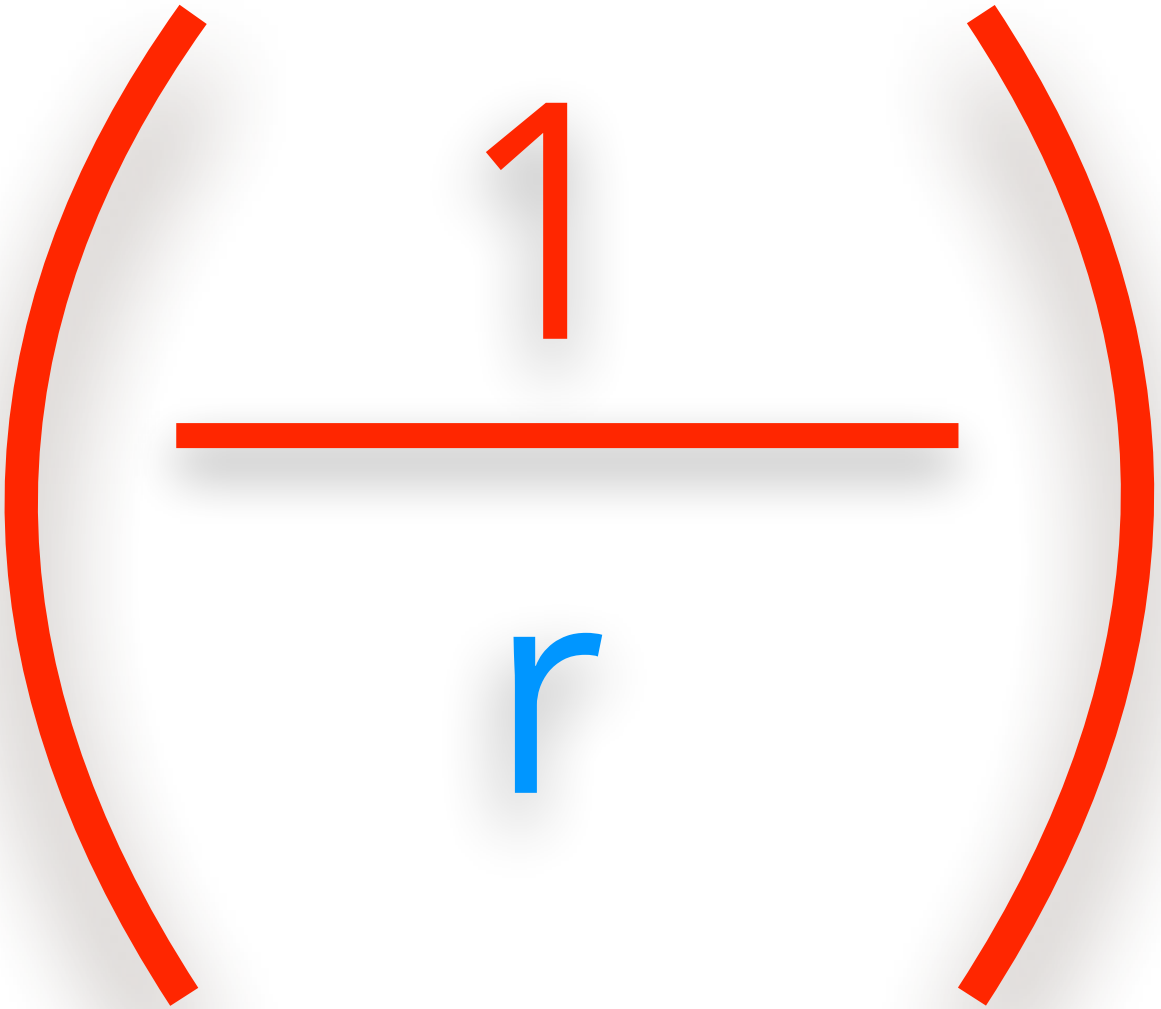
$$\Delta D = 3{,}000 \left( \frac{1}{1 - 0.9} \right)$$

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%

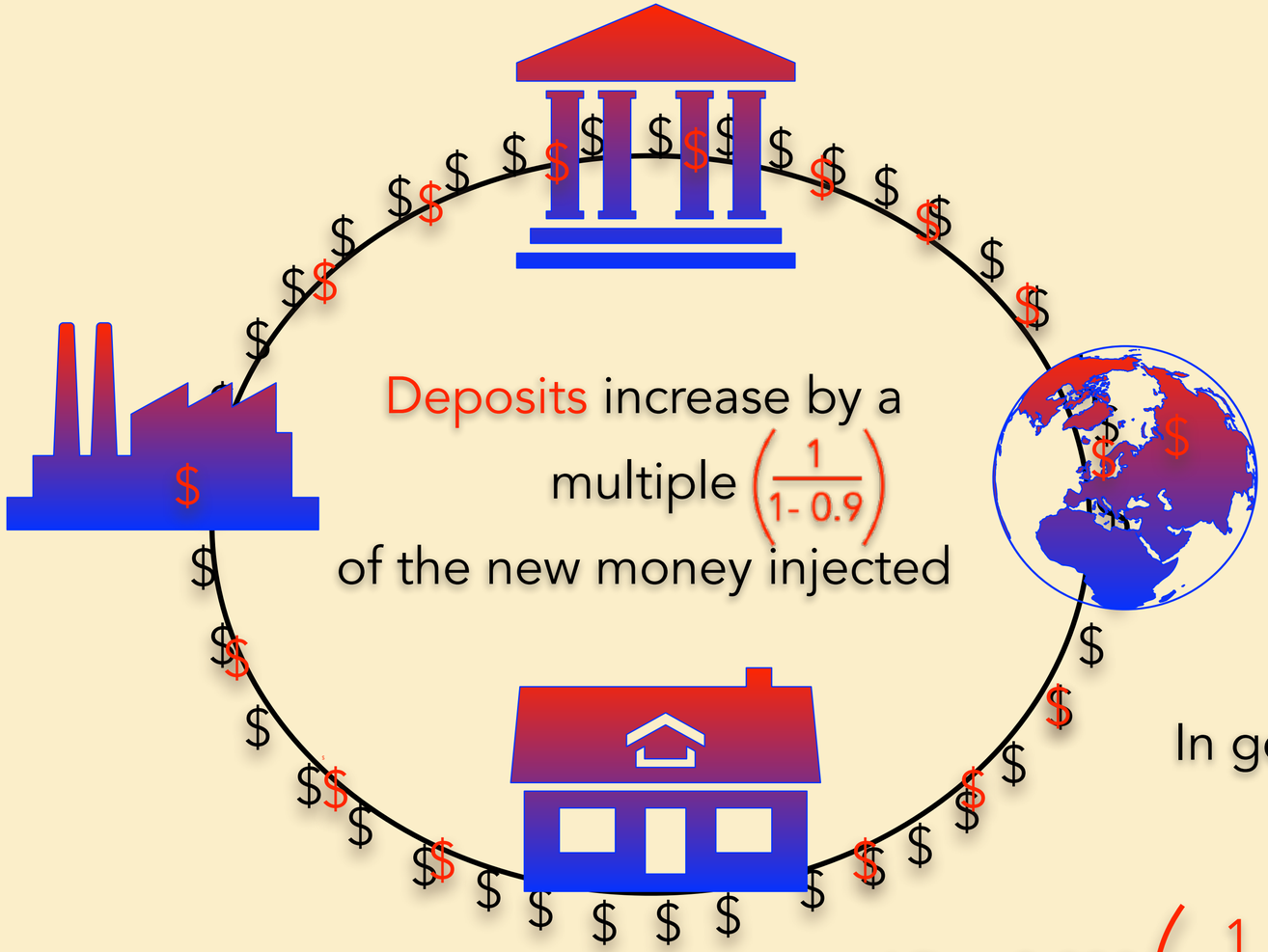
1 - 0.9 is the fraction (r) of Deposits which banks must keep in reserves: r =10%

In general, we can write this "money multiplier" as


1
r

In general, we can write the increase in Deposits as:


ΔD= New Money
1
r



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The Federal Reserve Bank creates new money

In general, we can write the increase in Deposits as:

$$\Delta D = 3{,}000\left(\frac{1}{1-0.9}\right) \qquad \Delta D = \text{New Money}\left(\frac{1}{r}\right)$$

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In general, we can write this "money multiplier" as $\left(\frac{1}{r}\right)$