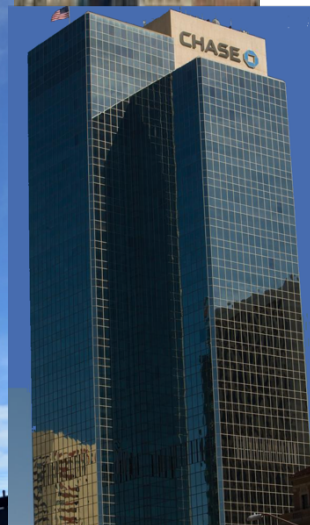


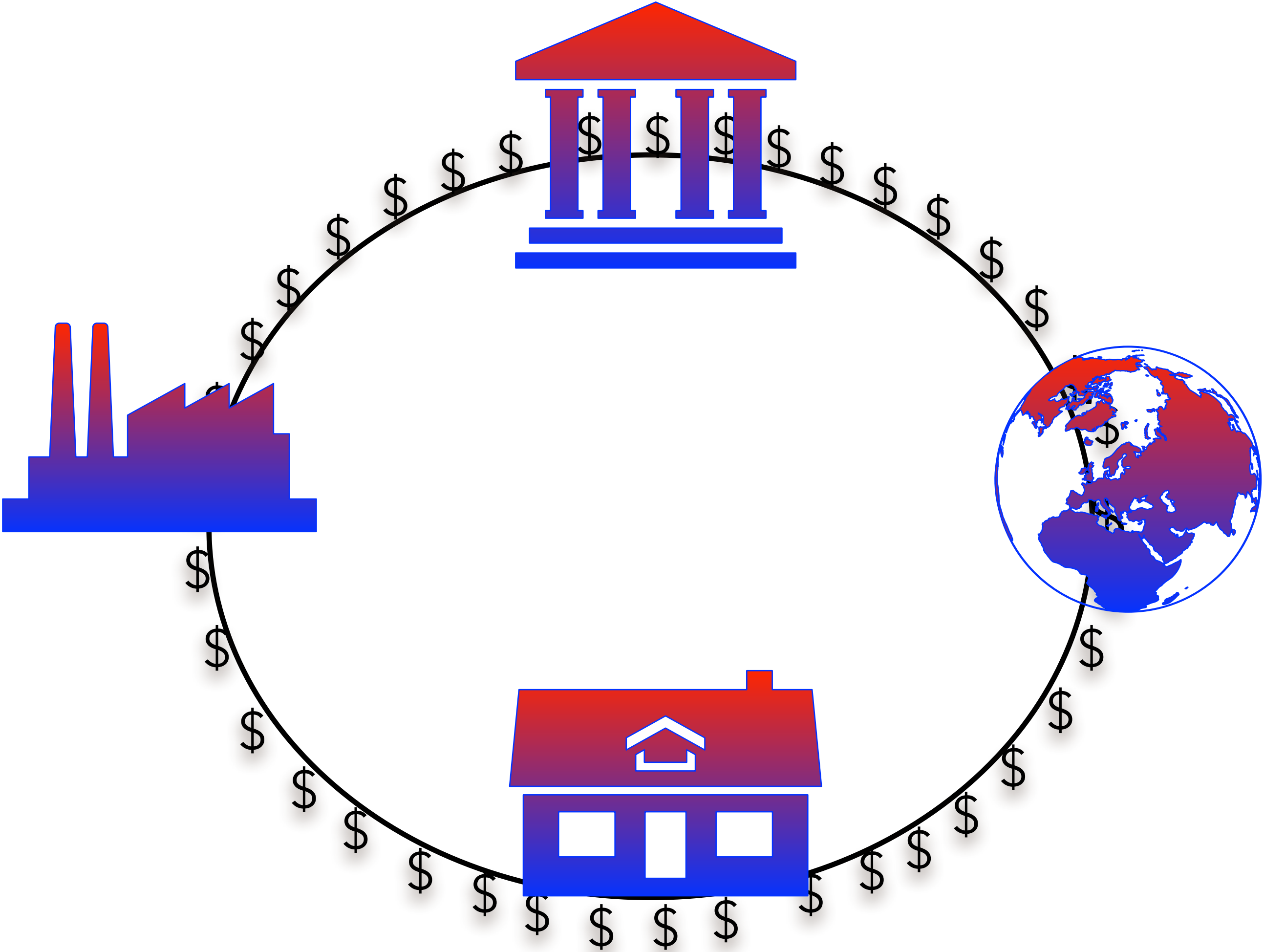
What happens
when new money
comes in?



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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%

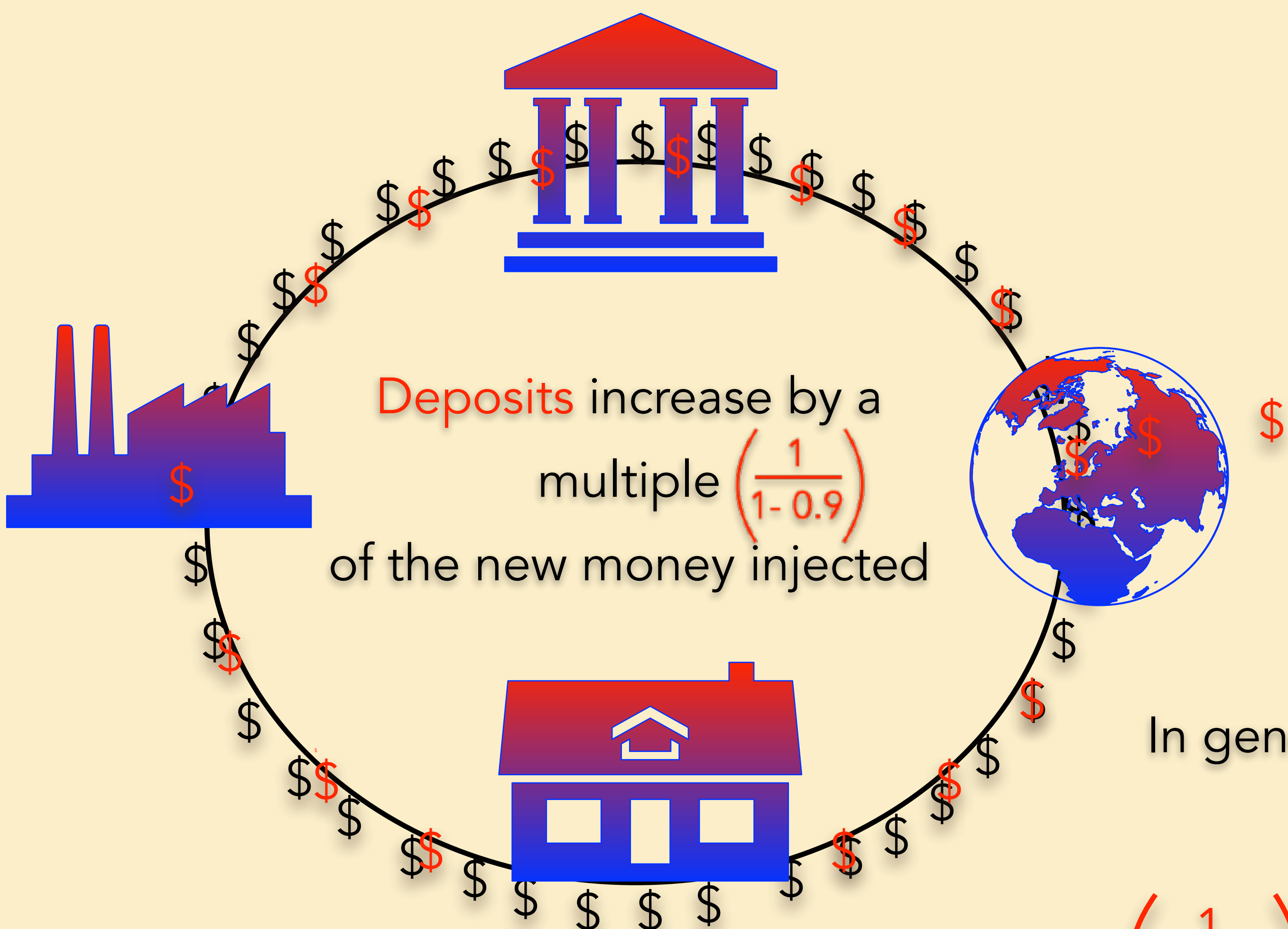
1-0.9 is the fraction (r) of Deposits which banks must keep in reserve: $r=10\%$

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

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

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