$$D = 700$$

Currency = 800

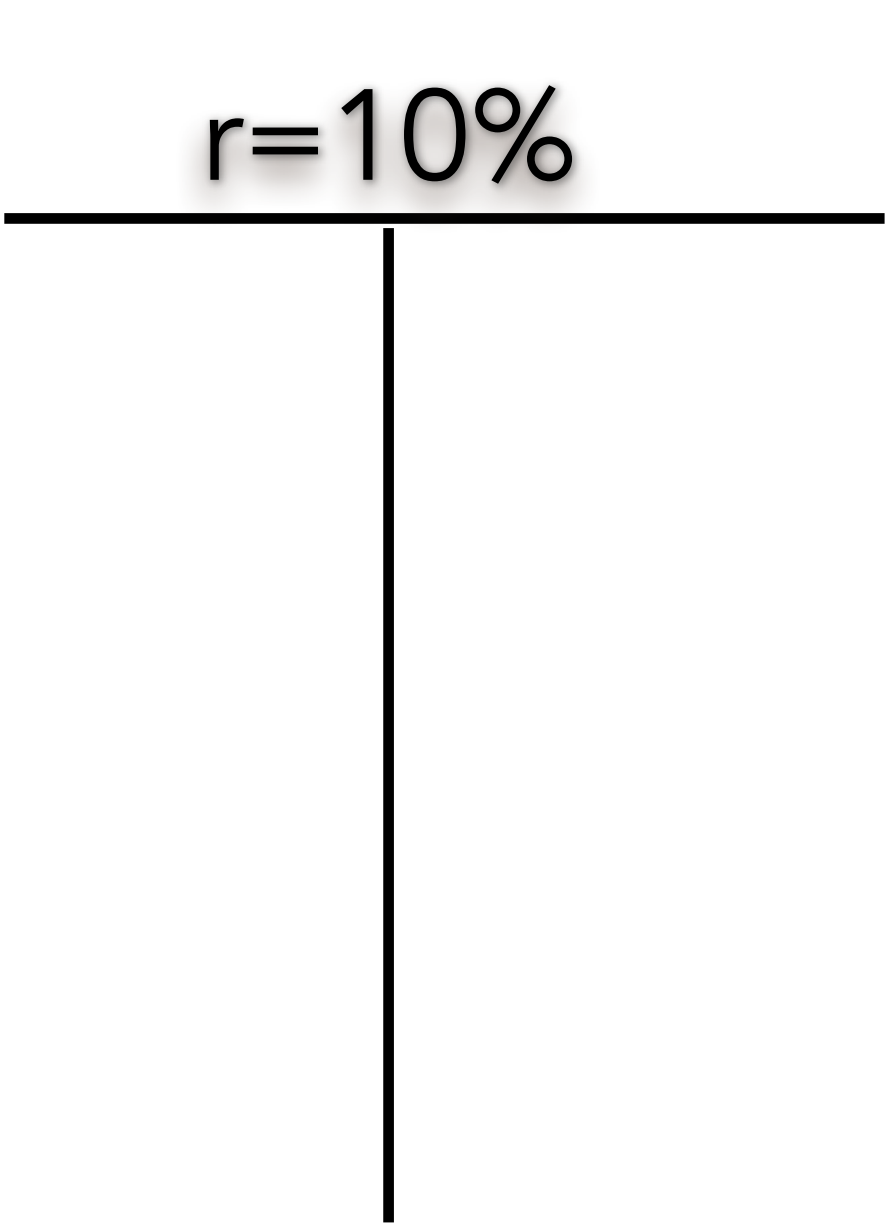
r=10%

RR=0.1*700

L= 620

Suppose banks decide to hold only the amount of Required Reserves (No excess Reserves)

$$\Delta D = ER \times (1/r)$$


r=10%

$$\Delta R = 0$$

$$\Delta L = \Delta D - \Delta R$$

$$M^s = 800 + 700$$

$$M^s = 1{,}500$$

New R = 80

New D =700 +100

New L = 620+100

New M^s = 1,500+100

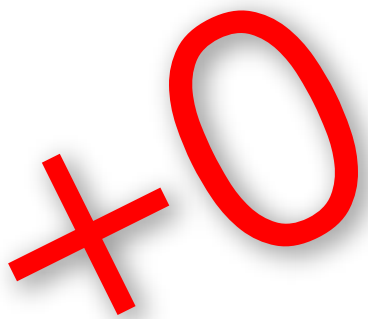
$$\Delta M^s = \Delta \text{ Currency } + \Delta D$$

+100

RR= r x D

$$L = D - R$$

M^s = Currency + Deposits


+0


+100

Example: The following values are given

Calculate: Loans and the Money Supply

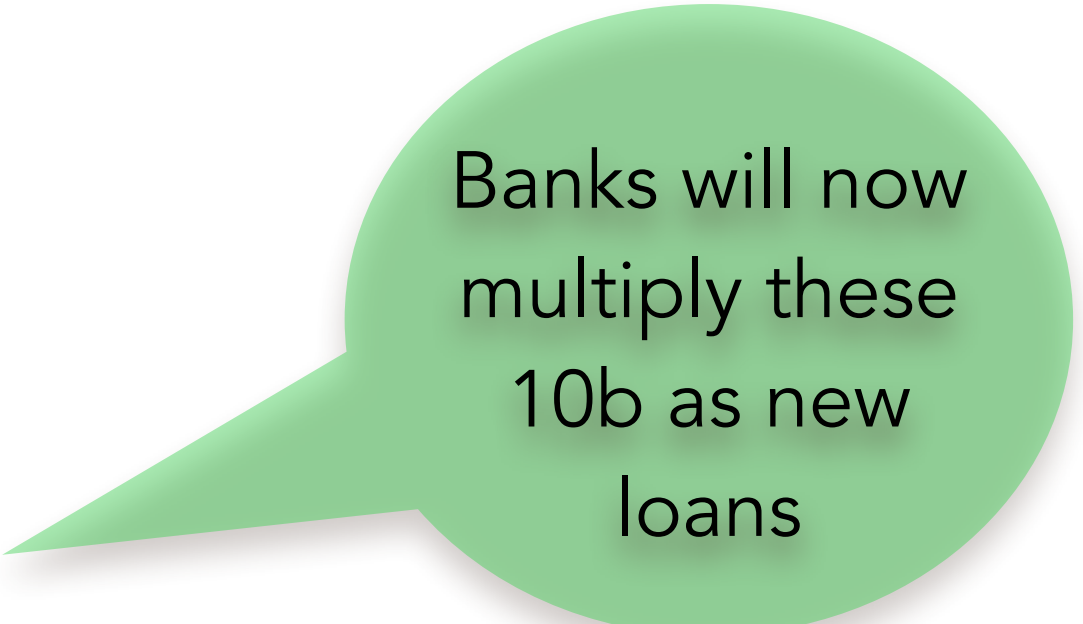
RR=70

$$L = 700 - 80$$

Calculate: Required Reserves, Excess Reserves, New Loans, new Deposits and the New Money Supply

$$\Delta D = 10 \times (1/0.1) = 100$$

$$\Delta L = 100 - 0 = 100$$


Banks will now multiply these 10b as new loans

New L = 720

New D =800

New $M^s = 1{,}600$

AR=80

ER=80 - 70


ER=10

Before

r=10%

R=80	D = 700

L= 620

$M^s = 800 + 700$

$M^s = 1{,}500$

After

r=10%

R=80	D = 800

L= 720

$M^s = 800 + 800$

$M^s = 1{,}600$

No new money came into the banking system

Example: The following values are given

Calculate: Loans and the Money Supply

Before

r=10%

R=80	D = 700
L= 620	

$M^s = 800 + 700$

$M^s = 1,500$

No new money came into the banking system

Suppose banks decide to hold only the amount of Required Reserves (No excess Reserves)

Calculate: Required Reserves, Excess Reserves, New Loans, new Deposits and the New Money Supply

After

r=10%

R=80	D = 800
L= 720	

$M^s = 800 + 800$

$M^s = 1,600$

M^s=Currency + Deposits