Customer / Depositors keeps $100 in bank and bank offers them 10% interest rate

Bank will give loan to other firms at 15% interest rate.

* + Reserve ratio, r= (required reserve/total deposit)×100

$10 at required reserve

r = ($10/$100)×100=10%

r=5.5%, deposit=$100 million

required reserve=(5.5%×100)=0.055×100=5.5 million

P level increases, money demand increases- positive relationship

Value of money falls,

Value of money and money demand-negative relationship

A increases, B increases, C falls

A and B= pos

B and C= neg

OMO=open market operations=buying and selling government bond to public

Buying bond= OMO purchase=public buys bond from government through the commercial banks

Money supply will increase.

OMO sale= selling bond from public to government through commercial banks

Money supply will decrease

**If central bank wants to increase money supply,**

1. **OMO purchase/ buying bond**
2. **Decrease the required reserve**
3. **Decrease the discount rate**