EC303: Money and Banking

In-class exercise 13

Spring 2022

Work in groups of 2-3 to answer the following questions.

Exercise 1

The Fed sells 100m worth of bonds to Regions Bank. What happens to the monetary base? Show it using the T-accounts of the Fed and Regions Bank.

Exercise 2

If the Fed lends five banks an additional total of $100 million but depositors withdraw $50 million and hold it as currency, what happens to reserves and the monetary base? Use T-accounts to explain your answer.

Exercise 3

Reserve ratio is 10%. Suppose Fed lends \$1m to the banks. What happens to checkable deposits?

Exercise 4

Assume currency ratio (currency to total deposits ratio) increases. What happens to monetary base and money supply?

Exercise 5

If a bank depositor withdraws \$1,000 of currency from an account, what happens to reserves, checkable deposits, and the monetary base?

Exercise 6

In October 2008, the Federal Reserve began paying interest on the amount of excess reserves held by banks. How, if at all, might this affect the multiplier process and the money supply?

Exercise 7

If you decide to hold \$100 less cash than usual and therefore deposit \$100 more cash in the bank, what effect will this have on checkable deposits in the banking system if the rest of the public keeps its holdings of currency constant?