

EC 201: Principles of Macroeconomics

Worksheet 8

Q1. Consider this *T – Account*

Scenario: Assets and Liabilities of the Banking System

Assets		Liabilities	
Loans	\$900,000	Deposits	\$1,000,000
Reserves	100,000		

If the reserve ratio is 5% and the banking system does NOT want to hold excess reserves, how much more can be added to the money supply?

Q2. Suppose the required reserve ratio is 10% and a depositor withdraws \$500 from her checkable deposit. The money supply will..... if the banking system does NOT hold any excess reserves.

- be unchanged
- decrease by \$500
- decrease by \$4,500
- decrease by \$5,000

Q3. You sell a few shares of stock and put the proceeds into your checking account. Does this transaction affect $M1$ or $M2$?

Q4. You transfer money from your savings account to your checking account. Does this transaction affect $M1$ or $M2$?

Q5. Using the following data, calculate monetary base. $M1$ and $M2$. Explain what do you find.

- Bank reserves with the Fed: \$200 billion
- Currency held by the public: \$100 billion
- Currency held in bank vaults: \$40 billion
- Checkable bank deposits: \$450 billion
- Saving deposits: \$800 billion
- Traveller's checks: \$5 billion