

# Creating Money through Lending

## Problem 1

\$5000 in cash is deposited at Bank A.

The reserve requirement is 20%,

### Person 1

Bank A

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

### Person 2

Bank B

Bank A loans its excess reserve to Corporation Z and it deposits the money into Bank B.

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

### Person 3

Bank C

Bank B loans its excess reserve to Joe and he deposits the money into Bank C.

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

### Person 4

Bank D

Bank C loans its excess reserve to Mary and she deposits the money into Bank D.

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

How much M1 has been created through lending at this point (add up all the changes to M1)?

How much would M1 equal if this lending continues forever (use the money multiplier formula)?

## Problem 2

\$4000.00 cash is deposited at Bank A.  
The reserve requirement is 10%,

### Person 1

Bank A

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

### Person 2

Bank B

Bank A loans its excess reserve to HawleyCo and it deposits the money into Bank B.

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

### Person 3

Bank C

Bank B loans its excess reserve to Jane and she deposits the money into Bank C.

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

### Person 4

Bank D

Bank C loans its excess reserve to Mike and he deposits the money into Bank D.

$\Delta$ Deposit \_\_\_\_\_  $\Delta$ M1 \_\_\_\_\_  
Only money created with this transaction

Reserve Requirement \_\_\_\_\_ Excess Reserves \_\_\_\_\_

How much M1 has been created through lending at this point (add up all the changes to M1)?

How much would M1 equal if this lending continues forever (use the money multiplier formula)?