Write in the box the number of the question you are answering on this page as it is designated in the examination.

3

3MACCLA

3 a) Janet's deposit has no immediate change in money supply, as M_1 already includes all demand-deposits and currency.

b) The bank can initially loan \$800. Their required reserves are \$200 $(.2(\$1{,}000) = \$200)$ and ~~[illegible]~~ therefore \$800 are excess reserves and can be loaned.

c) The system can create \$4,000 of new money. Using the multiplier $\frac{1}{RR} = \frac{1}{.2} = 5$ times \$1,000 deposit creates \$5,000, minus the initial \$1,000 deposit which was already counted, equals \$4,000 <u>new</u> money.

d) The money supply may not increase by as much due to leakages. If either banks keep excess reserves or people hold on to excess cash rather than depositing, there will be less of an increase.