**Bank Expansion of Deposits**

Assume that the reserve requirement is 25%. Answer the following questions based on this information.

1. Joe deposits $10,000 in Bank A. How much will Bank A have to keep in reserves?
2. How much will Bank A be able to loan out as excess reserves?
3. How much will be deposited into Bank B?
4. How much will Bank B have to keep in reserves?
5. How much will Bank B be able to loan out as excess reserves?
6. How much will be deposited into Bank C?
7. How much will Bank C have to keep in reserves?
8. How much will Bank C be able to loan out as excess reserves?
9. How much will be deposited into Bank D?
10. How much will Bank D have to keep in reserves?
11. How much will Bank D be able to loan out as excess reserves?
12. How much will be deposited into Bank E?
13. How much will Bank E have to keep in reserves?
14. How much will Bank E be able to loan out as excess reserves?
15. How much money has the banking system “created”?
16. How long will the bank be able to create additional money?
17. How is the process similar to the spending multiplier process you learned earlier?

# Bank Expansion of Deposits Answer Key

## Assume that the reserve requirement is 25%. Answer the following questions based on this information.

1. Joe deposits $10,000 in Bank A. How much will Bank A have to keep in reserves?

*$2,500*

1. How much will Bank A be able to loan out as excess reserves?

*$7,500*

1. How much will be deposited into Bank B?

*$7,500*

1. How much will Bank B have to keep in reserves?

*$1,875*

1. How much will Bank B be able to loan out as excess reserves?

*$5,625*

1. How much will be deposited into Bank C?

*$5,625*

1. How much will Bank C have to keep in reserves?

*$1,406.25*

1. How much will Bank C be able to loan out as excess reserves?

*$4,218.75*

1. How much will be deposited into Bank D?

*$4,218.75*

1. How much will Bank D have to keep in reserves?

*$1,054.69*

## How much will Bank D be able to loan out as excess reserves?

*$3,164.06*

1. How much will be deposited into Bank E?

*$3,164.06*

1. How much will Bank E have to keep in reserves?

*$791.02*

1. How much will Bank E be able to loan out as excess reserves?

*$2,925.14*

1. How much money has the banking system “created” so far?

*$23,432.95*

1. How long will the bank be able to create additional money?

*The bank will continue to create money as long as it has excess reserves.*

1. How is the process similar to the spending multiplier process you learned earlier?

*This process works like the spending multiplier in that when a dollar is deposited in the bank, a portion of that dollar is loaned out to be spent or re-deposited multiple times.*