**T-Accounts**

The bank has a 10% reserve requirement. Record each transaction in the category it belongs in. Carry forward the information from the previous transaction. The categories you will use are those included below.

1. Eli has $5000 in cash and decides that he needs to open a checking account at Main Street Bank.

|  |  |
| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves Excess Reserves  Loans | Checkable Deposits |

1. Melanie’s Furniture Mart seeks a loan from Main Street Bank. The bank loans Melanie the maximum amount they can loan out.

|  |  |
| --- | --- |
| ASSETS | LIABILITIES |
| Required Reserves  Excess Reserves Loans | Checkable Deposits |

1. Melanie deposits the money she borrowed into her account at Main Street Bank.

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| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves Excess Reserves  Loans | Checkable Deposits |

1. Sean wants to buy new living room furniture for his home. Main Street Bank loans Sean the maximum amount it can loan out.

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| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves Excess Reserves  Loans | Checkable Deposits |

1. Sean buys the furniture from Melanie’s Furniture Mart and Melanie deposits the money in her account at Main Street Bank.

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| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves Excess Reserves  Loans | Checkable Deposits |

1. How much has the bank created with these transactions?
2. What is the maximum amount the bank can create?

# T-Accounts Answer Key

## The bank has a 10% reserve requirement. Record each transaction in the category it belongs in. Carry forward the information from the previous transaction. The categories you will use are those included below.

1. Eli has $5,000 in cash and decides that he needs to open a checking account at Main Street Bank.

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| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves *500.00*  Excess Reserves *4,500.00*  Loans | Checkable Deposits *5,000.00* |

1. Melanie’s Furniture Mart seeks a loan from Main Street Bank. The bank loans Melanie the maximum amount they can loan out.

|  |  |
| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves *500.00*  Excess Reserves  Loans *4,500.00* | Checkable Deposits *5,000.00* |

1. Melanie deposits the money she borrowed into her account at Main Street Bank.

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| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves 950.00  Excess Reserves 4,050.00  Loans 4,500.00 | Checkable Deposits 9,500.00 |

1. Sean wants to buy new living room furniture for his home. Main Street Bank loans Sean the maximum amount it can loan out.

|  |  |
| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves 950.00  Excess Reserves  Loans 8,550.00 | Checkable Deposits 9,500.00 |

1. Sean buys the furniture from Melanie’s Furniture Mart and Melanie deposits the money in her account at Main Street Bank.

|  |  |
| --- | --- |
| **ASSETS** | **LIABILITIES** |
| Required Reserves 1,355.00  Excess Reserves 3,645.00  Loans 8,550.00 | Checkable Deposits 13,550.00 |

1. How much has the bank created with these transactions*? $8,550*
2. What is the maximum increase in the money supply from this deposit?

*1/rr = 1/0.10 = 10; 10 x $4,500 = $45,000*