Fractional Reserve Banking:

The Fed sets the reserve ratio, currently _____%

That means _____% of deposits can be loaned to other customers

Fractional Reserve Banking:

- Assume that an initial savings of $5000 occurs and the reserve ratio is 20%. Calculate the Deposit, Reserve and Loan for each of the 5 next potential transactions.

	Deposit	Reserve	Loan
Loan 1	5000		
Loan 2			
Loan 3			
Loan 4			
Loan 5			
		Total Amount Loaned	

What is the money multiplier? It is the amount of "new money" that can be generated by deposits and loans in the banking system. The equation for the money multiplier is 1/reserve ratio.

A reserve ratio of 10%= _____money multiplier. Apply this to the example above._____

A reserve ratio of 20%=_____money multiplier. Apply this to the example above._____

A reserve ratio of 25%=_____money multiplier. Apply this to the example above._____