Monetary Economics - Seminar 2

A bank's balance sheet shows that total assets equal total liabilities plus equity capital.

Bank capital is recorded as an asset on the bank balance sheet. THIS IS A FALSE STATEMENT.

Checkable deposits are reported as liabilities on a bank's balance sheet.

When Jane Brown writes a $100 check to her nephew and he cashes the check, Ms. Browns' bank **loses** assets of $100 and **loses** liabilities of $100.

When you deposit a $50 bill in the Security Pacific National Bank, it's assets increase by %50.

When you deposit a $50 in currency at Old National Bank, its liabilities increase by 50%.

If a bank has $200,000 of checkable deposits, a required ratio of 20% and it holds $80,000 in reserves, then the maximum deposit outflow it can sustain with altering its balance sheet is **$50,000.**
-Have to take compound interest rate:

- $\frac{80{,}000-(0.2\ x\ 200{,}000)}{1-0.2}$
- =50,000

If a bank has $10 million of checkable deposits, a required reserve ration of 10% and it holds $2 million in reserves then it will not have enough reserves to support a deposit outflow of anything up to $1.1 million.
-Take compound interest rate

- $\frac{2{,}000{,}000-(0.1\ x\ 10{,}000{,}000)}{1-0.1}$
- =1.1mil

If a bank has excess reserves greater than the amount of a deposit outflow, the outflow will result in equal reductions in deposits and reserves.

A $5million deposit outflow from a bank has the immediate effect of reducing deposits and reserves by $5 million.

Bankers' concerns regarding the optimal mix of excess reserves, secondary reserves, borrowings from the Fed and borrowings from other banks to deal with deposit outflows is an example of liquidity management.

Long-term customer relationships reduce the cost of information collection and make it easier to screen credit risks.

A bank's commitment to provide a frim with loans up to pre-specified limit at an interest rate that is tied to a market interest rate is called loan commitment.

Property promised to the lender as compensation if the borrower defaults is called collateral.

Risk that is related to the uncertainty about interest rate movements is called interest rate-risk.

All else the same, if a bank's liabilities are more sensitive to interest rate fluctuations that are its assets, then and increase in interest rates will reduce bank profits.