Seminar 4 Statements

Individuals that lend funds to a bank by opening a checking account are called depositors.

The three players in the money supply process include banks, depositors and the central bank.

The monetary base consists of currency in circulation and reserves.

Excess reserves are equal to vault cash plus deposits with Federal Reserve banks minus required reserves.

The percentage of deposits that banks must hold in reserve is the required reserve ratio.

High-powered money minus reserves equals currency in circulation.

Purchase and sales of government securities by the Federal Reserve are called open market operations.

When the Federal Reserve sells a government bond to a primary dealer, reserves in the banking system decrease and the monetary base decreases, everything else held constant.

When a primary dealer sells a government bond to the Federal Reserve, reserves in the banking system increase and the monetary base increases, everything else held constant.

There are two ways in which the Fed can provide addition reserves to the banking system: it can purchase government bonds, or it can extend discount loans to commercial banks.

A decrease in float leads to an equal decrease in the monetary base in the short run.

If the required reserve ratio is equal to 10%, a single bank can increase its loans up to a maximum amount equal to its excess reserves.

In the simple deposit expansion model, if the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, the bank can now increase its loans by $100.

In the simple deposit expansion model, if the Fed purchases $100 worth of bonds from a bank that previously had no excess reserves, deposits in the banking system can potentially increase by $100 times the reciprocal of the required reserve ratio.

In the simple deposit expansion models, if the Fed extends a $100 discount loan to a bank that previously had no excess reserves, the bank can now increase its loans by $100.

If reserves in the banking system increase by $100, then checkable deposits will increase by $1000 in the simple model of deposit creation when the required reserve ratio is 0.10.

If the required reserve ratio is 15%, the simple deposit multiplier is 6.67.

Decisions by depositors to increase their holdings of currency, or of banks to hold excess reserves will result in a smaller expansion of deposits than the simple model predicts.

The amount of borrow reserves is negatively related to the discount rate and is positively related to the market interest rate.

Everything else held constant, an increase in currency holding will cause the money supply to fall.