Quiz
June 20, 2017
5 points

<u>Show all of your work</u>.

1. a) Suppose that the Federal Open Market Committee completes an open market purchase of $10 million. The United States Bank has the U.S. T-bills so make sure to show their balance sheet as well as the Federal Reserve Bank's balance sheet. Show the transactions using T-accounts.

   b) U.S. Bank loans out all of the reserves to Andrew who uses Bank A to deposit the check (in his checking account). Show this in a T-account for U.S. Bank.

   c) Using a T-account show what happens when the Bank A makes a loan to earn income from all of their extra excess reserves (to Sue), if the required reserve ratio is 15%.

   d) Sue, who takes out the loan at the Bank A, deposits her funds at Bank B. Bank B also has a 15% reserve requirement and will loan out the extra funds as well (to John). Show the **final** T-account for Bank B and for Sue.

   e) John, who came into Bank B and agreed to the loan for the excess funds from Sue's deposit, uses the Bank C to deposit his loan. Show the final T-account for the Bank C and for John.

   f) Using the simple money multiplier (show your calculation), determine the total amount of deposits that will be affected by the initial reserves created by the FOMC.