

Answer on Question #38016 - Economics - Macroeconomics

Assignment

If bank A borrows \$10 million from the Fed, what happens to the reserves in bank A? in the banking system?

Solution

When a bank borrows money from the Fed, its reserves increase while the reserves of no other bank decrease; meaning, the money supply increases. The Fed receives the securities from a bank, and the bank's reserves increase by the amount the purchase.