

Answer on Question #38086 - Economics - Macroeconomics

If the Fed sells \$5 million worth of bonds to Econobank, the reserves of the bank will not change. The money supply will increase by $\$5 \text{ million} * (1 - 0.1) = \4.5 million , as new money is created. If some people involved in the money creation process keep some of their funds as cash, the increase in money supply will be lower.