

Answer on question #63359 - Economics/Macroeconomics

The commercial banks in St. Paul have:

Reserves

\$125 million

Loans

\$1,875 million

Deposits

2,000 million

Total Assets

\$2,100 million

- a. Construct the commercial bank's balance sheet. If you are missing any assets, call them "other assets"; if you are missing any liabilities, call them other liabilities".
- b. Calculate the banks' reserve ratio.
- c. If banks hold no excess reserves, calculate the deposit multiplier.

Solution:

- a. Balance sheet

ASSETS, millions of dollars		LIABILITIES, millions of dollars	
Loans	1,875	Deposits	2,000
Reserves	0,125	Other liabilities	0,100
Other assets	0,100		
Total Assets	2,100	Total liabilities	2,100

- b. The banks' reserve ratio = $\text{Reserves} \div (\text{Deposits} - \text{Loans}) = 0,125 \div (2,000 - 1,875) = 1$
- c. The deposit multiplier = $1 \div \text{Required reserve ratio} = 1 (100\%)$.