

EE212 Principles of Macroeconomics, 2/2015 (Sec. 046401)

Problem Sets 2 :
Chapter 5. Monetary Policy

Please submit at the BE office, 5th floor department of Economics building.

Deadline of submission : March 25, 2016, before 15.00 hrs.

Late submission will not be accepted.

- 1. What is money supply? State whether Money supply is stock or flow variable and explain why.

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- 2. Define Narrow Money (M1).

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- 3. Assume that Hometown Bank has demand deposits of \$3,500,000, a reserve requirement of 10 percent and actual reserves of \$850,000. Determine the bank's required reserves and excess reserves.

Required reserves =
Excess reserves =

- 4. Assume that Fudge-It Bank has \$3,000,000 in checkable deposits, a 15 percent required reserve ratio and \$520,000 in actual legal reserves. Based on these figures, what is the maximum amount in new loans that Fudge-It Bank (ONE bank) can make?

New loans =

- 5. A person makes a deposit of \$1, 000 and the required reserve ratio is 10%. According to the simple money creation model, what is the final total change in deposits?

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- 6. Suppose that Lloyd Bank has reserves totaling \$100,000 on \$1,000,000 of deposits. Lloyd Bank lends out \$900,000. The reserve requirement is 10 percent. Can **this bank** make any new loans? Explain.

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7. Suppose Stefan deposits \$20,000 into Lloyd Bank. Suppose banks lends out all of its excess reserve. The reserve requirement is 10 percent. By how much will the banking system can increase total loans? What is the final total deposits in the banking system? How much money creation that the banking system can create? Show your work.

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8. Suppose that Stefan, fearing an impending financial crisis, withdraws \$20,000 from his account at Lloyd Bank and buries the cash in his backyard. The reserve requirement is 10 percent. Suppose the bank lends out all of its excess reserve. By how much will the bank have to reduce its loans? Calculate the maximum amount the money supply may contract as a result. Show your work.

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9. Suppose there is 2,000 million baht in the hand of the public.

(a) People want to hold only cash. They do not want to deposit money in a bank. What is the money supply of the economy?

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(b) Suppose people decide to deposit 1,500 million Baht in to the banking system. Required reserve ratio = 0.1. Assuming that the banking system has the potential to create deposits to the maximum. Calculate the total deposits in the banking system, money multiplier, and the deposits created by banks. What is the money supply of the economy?

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