Problem Set 7

Lecture 7: What is Money and How Money is Measured in Canada, How Banks Create Money, the Bank of Canada, and the Quantity Theory of Money

1. Banking in Boblandia.

(a) The banks in Boblandia have a target reserve ratio of 1/10. Under the assumption that consumers do not wish to increase their currency holdings as deposits increase, what is the money multiplier?

(b) Assume commercial banks in Boblandia currently have no excess reserves. Reserves = 100, bonds = 19, the rest is loans, and deposits = 1000. Depict the T-account.