

Chapter 11



The Banking System and the Money Supply

ECONOMICS: Principles and Applications, 4e
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Monetary Assets and Their Liquidity

Figure 1 Monetary Assets and Their Liquidity (June 26, 2006)

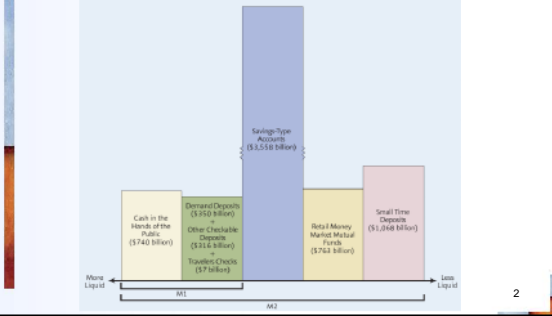
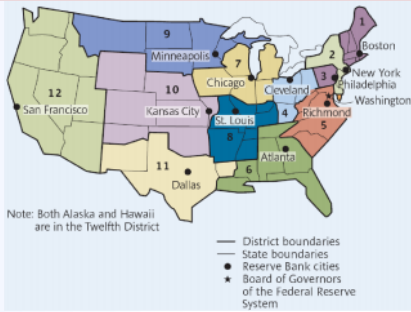


Table 1: A Typical Commercial Bank's Balance Sheet

Assets		Liabilities and Net Worth	
Property and buildings	\$ 5 million	Demand deposit liabilities	\$100 million
Government and corporate bonds	\$ 25 million	Net worth	\$ 5 million
Loans	\$ 65 million		
Cash in vault	\$ 2 million		
In accounts with the Federal Reserve	\$ 8 million		
Total Assets	\$105 million	Total Liabilities plus Net Worth	\$105 million

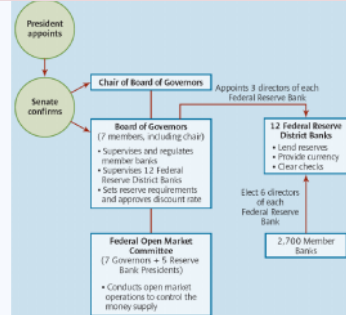
The Federal Reserve System

• **Figure 2** The Geography of the Federal Reserve System



The Structure of the Fed

• **Figure 3** The Structure of the Federal Reserve System



The Fed and the Money Supply

• **Table 2** Cumulative Increases in Demand Deposits

Round	Additional Demand Deposits Created by Each Bank	Additional Demand Deposits Created by All Banks
First National Bank	\$1,000	\$1,000
Second National	\$ 900	\$1,900
Third State	\$ 810	\$2,710
Bank 4	\$ 729	\$3,439
Bank 5	\$ 656	\$4,095
Bank 6	\$ 590	\$4,685
...		
Bank 10	\$ 387	\$6,511
...		
Bank 20	\$ 195	\$8,764
...		
Bank 50	very close to zero	very close to \$10,000

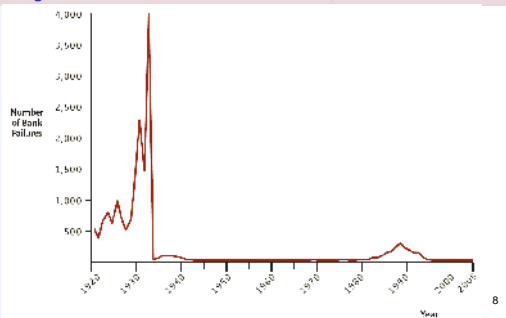
Table 3: How Borrower Bankruptcies Affect a Bank's Balance Sheet

Assets		Liabilities and Net Worth	
Property and buildings	\$5 million	Demand deposit liabilities	\$100 million
Government and corporate bonds	\$25 million	Net worth	\$5 million
Loans	\$65 million		-\$10 million
Reserves	\$10 million		
Total Assets	\$105 million	Total Liabilities plus Net Worth	\$105 million
	\$90 million		\$90 million

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Bank Failures in the United States, 1921-2005

• **Figure 4** Bank Failures in the United States, 1921-2005



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