Assume the following bank holds no excess reserves and that the reserve requirement is 12% for transaction deposits. Compute the banks reserves, total assets, total liabilities, and bank capital. Enter these values on the balance sheet below.

Assets		Liabilities	
Reserves	<u>\$360</u>	Transaction deposits	\$3,000
Securities	\$2,000	Nontransaction deposits	\$6,000
Loans	\$8,000		
		Bank capital	\$1,360
TOTAL	<u>\$10,360</u>	TOTAL	<u>\$10,360</u>

Consider the bank above. Suppose an individual makes a \$1,500 cash withdrawal from the bank. Record this transaction using a T-account (that is, reporting the changes in the bank's balance sheet). Indicate which assets and/or liabilities are changing and record the total change in each (enter "0" if there is no change) on the table below:

Assets		Liabilities	
Reserves Securities	-\$180 -\$1320	Transactions deposits	-\$1500
TOTAL CHANGE	<u>-\$1500</u>	TOTAL CHANGE	<u>-\$1500</u>

Note: The bank's required reserves change when a customer makes a withdrawal. Above, I assume the bank uses its excess reserves first, then its securities to raise the liquid cash needed to meet the customer's withdrawal.

Consider two banks: Bank A and Bank B. Now, suppose that Bank A gives a loan to one of its customers to finance the purchase of a new television from Best Buy for \$3,000. Best Buy banks at Bank B. Record how these transactions will affect Bank A and Bank B. Indicate which assets and/or liabilities are changing and record the total change in each (enter "0" if there is no change) on the table below:

Bank A

Assets		Liabilities	
Reserves Loans	-\$3,000 +\$3,000		
TOTAL CHANGE	No change	TOTAL CHANGE	No change



Assets		Liabilities	
Reserves	+\$3,000	Deposits	+\$3,000
TOTAL CHANGE	<u>+\$3,000</u>	TOTAL CHANGE	+\$3,000

What has happened to total deposits in the banking system as a result of the loan? Deposits increased by \$3,000.