2. The following is the balance sheet of First Superior Bank.

Assets		Liabilities and Equity	
Reserves	$200	Demand deposits	$2,000
Loans	$1,800	Equity (net worth)	$0

Assume that the required reserve ratio is 10 percent.

(a) What is the dollar value of new loans that First Superior Bank can make? Explain.

(b) Mr. Smith deposits $100 of cash in a demand deposit account in First Superior Bank. Calculate the maximum amount of new loans that First Superior Bank can now make.

(c) As a result of Mr. Smith's $100 cash deposit, calculate the maximum change over time in each of the following in the banking system.

(i) Loans

(ii) Demand deposits

(d) As a result of Mr. Smith's $100 cash deposit, calculate the maximum change over time in the money supply.

(e) Provide one reason why the actual change in money supply can be smaller than the maximum change you identified in part (d).