

Solutions

Each answer shows the steps, then the **result**.

2.1

- banks keep only a fraction of deposits as reserves and lend the rest

2.2

- $\frac{1}{0.20} = 5$

2.3

- it increases (the loans become new deposits elsewhere)

3.1 B

3.2 B

3.3

(a)

- $\frac{1}{0.10} = 10$

(b)

- $2000 \times 10 = \$20\,000$