Solutions

2.1

- Multiplier $= 1/0.08 =$ **12.5**.
- Deposits $= 200 \times 12.5 =$ **2,500**.

2.2

- $m = (1 + 0.2)/(0.08 + 0.2) = 1.2/0.28$.
- $=$ **4.29**.
- Deposits $= 200 \times 4.29 =$ **857** (857.1).

2.3

- Sale $= 150/4.29$.
- $=$ **35** (34.97) – tools interlock: a small reserve operation moves broad money in multiples.

2.4

- $1.07/1.05 - 1 =$ **1.90**%.
- At 9%: $1.09/1.05 - 1 =$ **3.81**%.
- The real cost of borrowing doubled from a 2-point nominal move – transmission is arithmetic before it is psychology.

2.5

- Banks lend when profitable, creditworthy borrowers exist – the multiplier is a ceiling, not an engine.
- And loan demand, regulation and confidence all shorten the chain the formula assumes runs to completion.

2.6

- (a) False – lending creates a deposit; reserves settle payments between banks.
- (b) False – credit pays LATER with money; the limit itself is not money.
- (c) False – it exists for panics, at a penalty price.

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