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AP Macro

T-Account Balance Practice

For each transaction create a new t-account that reflects the change in the balance of bank. Assume that the bank has $100 in start-up capital and $100 in physical assets.

**If possible state the change in M1 or M2**

**State the value of the simple deposit expansion multiplier (money multiplier)**

**State how much the bank could initially loan out**

**State how much money might eventually be added to the economy**

Example: Dori deposits $200 of birthday money in her checking account. Reserve Requirement= 25% Bank keeps no excess reserves

1) T. Stark places $50,000 of liquidated stocks into a checking account. Reserve Requirement=15% This bank keeps an extra 5% in excess reserves

2) Taylor S. puts $1,000,000 of t-shirt sales into her checking and then also puts $1,000,000 into government savings bonds. Reserve Requirement=10%

3) Sandy places $50 into her checking account. Reserve Requirement= 40%

4) There will be 3 different t-accounts drawn for this problem. L. James deposits $10,000 into his checking account. No reserve ratio. Now draw a new t-account for a reserve ratio of 5%, no excess reserves. L. James withdraws $3,000 from checking to pay for a new pair of jeans, draw a new t-account (remember, both sides need to balance).

BANK A

Assets Liabilities

Actual reserves $1,000 Demand deposits $5,000

Loans $4,000

BANK B

Assets Liabilities

Actual reserves $ 100 Demand deposits $ 600

Loans $ 500

BANK C

Assets Liabilities

Actual reserves $ 10 Demand deposits $ 100

Loans $ 90

1) Based on the balance sheets above for three different banks, which of the following is true, if the reserve requirement is 10 percent?

(A) Bank A has no excess reserves.

(B) Bank B has no excess reserves.

(C) Bank B can increase its loans by $500.

(D) Bank B can increase its loans by $40.

(E) Bank C has excess reserves.

2) Investment leads to economic growth because capital per worker and output per worker will change in which of the following ways?

**Capital Output**

**per Worker per Worker**

(A) Increase Increase

(B) Increase Decrease

(C) No change Increase

(D) Decrease Increase

(E) Decrease Decrease

3) Which of the following are the most likely short-run effects of an increase in government expenditures?

**Unemployment Rate Inflation Rate Real Gross Domestic Product**

(A) Increase Increase Increase

(B) Increase Increase Decrease

(C) Decrease Increase Increase

(D) Decrease Decrease Increase

(E) No change Decrease Increase

4) Use the following information to answer 3

   I. mutual funds

   II. savings deposits

   III. currency held by consumers

   IV. checkable deposits

    V. money market deposit accounts

According to the preceding list of items, which are considered to be part of the M1 money supply?

A. I and II

B. III and V

C. I and V

D. IV and V

E. III and IV

5) If a loan is repaid at a commercial bank

A. money is destroyed

B. money is created

C. commercial bank assets are increased

D. commercial bank assets are decreased

E. none of the above

6) If Jack deposits $500, and the reserve ratio is 10%, what will result?

A. $5,000 in money creation

B. $5,000 in money destruction

C. $500 in money creation

D. $550 in money destruction

E. $50 in money creation

7) Indicate whether each of the following is part of M1, M2 or neither

a. $95 on your campus meal card

b. $.55 in change in your couch

c. $1,663 in a savings account

d. $459 in your checking account

e. 100 shares of stock in Berkshire Hathaway

f. a $1,000 line of credit on Sears credit card

g. a $10,000 loan from a bank

h. sell shares from a stock and put into a savings account

FRQ #2 from 2012 AP Macroeonomics Exam

The following is a simplified balance sheet for Mi Tierra Bank in the United States.

Mi Tierra Bank

Assets Liabilities

Required reserves $10,000 Demand deposits $100,000

Excess reserves $5,000

Loans $85,000 Owner’s equity $ 0

(a) What is the reserve requirement?

(b) Assume that Luis withdraws $5,000 in cash from his checking account at Mi Tierra Bank.

(i) By how much will Mi Tierra Bank’s reserves change based on Luis’ withdrawal?

(ii) What is the initial effect of the withdrawal on the M1 measure of money supply? Explain.

(iii) As a result of the withdrawal, what is the new value of excess reserves on the balance sheet of Mi Tierra Bank based on the reserve requirement from part (a)?

(c) Assume that the next day John withdraws from Mi Tierra Bank an amount that exceeds the bank’s excess reserves. Assuming that no loans are called in, how can Mi Tierra Bank cover its required reserves?