



DRIVING QUESTION

A bank holds \$1 in reserves for every \$10 in deposits. How does it turn that \$1 into way more than \$10 flowing through the economy — legally?

Gut instinct now. Answer it again at the end using excess reserves and the money multiplier.

BEFORE THE GAME

Walk into any bank and ask to withdraw your whole balance on the same day as everyone else, and it can't be done — the money isn't sitting in a vault. Most was already loaned out. That's not a scandal; that's the business model.

Your gut answer — if a bank doesn't keep 100% of deposits on hand, where did the rest of the money go, and is that safe?

Quick prediction — if the Fed lowers the reserve requirement, can banks lend MORE or LESS from the same deposit base?

☐ More ☐ Less

DURING THE GAME – RUN THE BANK

QTR	RRR	DEPOSITS	REQUIRED RESERVES	EXCESS RESERVES	LOANS / BONDS BOUGHT	VIOLATION?
1	_____	_____	_____	_____	_____	☐ Y ☐ N
2	_____	_____	_____	_____	_____	☐ Y ☐ N
3	_____	_____	_____	_____	_____	☐ Y ☐ N
4	_____	_____	_____	_____	_____	☐ Y ☐ N

Required Reserves = Deposits × RRR • Excess Reserves = Reserves – Required Reserves. Lending beyond excess reserves risks a violation – two violations and the Fed seizes the bank.

AFTER THE GAME

Compare your quarter with the lowest RRR to your quarter with the highest RRR. Which one let you approve more loans from the same deposit base?

Now use the vocabulary: the **money multiplier** = $1 \div \text{RRR}$. Calculate it for your lowest and highest RRR quarters — how different is the total lending capacity they create?

TRANSFER — NOW APPLY IT

Breaking: "Fed Cuts Reserve Requirement From 10% to 5%"

First National Bank holds \$200 million in deposits. Until today, the reserve requirement was 10%. The Fed just cut it to 5%, effective immediately — and the bank hasn't changed anything else about its deposits.

\$200M

DEPOSITS

10% → 5%

RRR CHANGE

?

NEW LENDING CAPACITY

A. Calculate required reserves before and after the cut.

B. How much NEW excess reserves does the cut free up for lending?

C. Calculate the money multiplier before and after — how much does total possible lending in the economy change?

RETURN TO THE DRIVING QUESTION

A bank holds \$1 in reserves for every \$10 in deposits. How does it turn that \$1 into way more than \$10 flowing through the economy — legally?

Use excess reserves and the money multiplier in your final answer.
