CHAPTER 33

The Monetary Multiplier

- **Monetary multiplier (m) is the reciprocal of the required reserve ratio (R)**

- **m = 1/R**

- **m** - represents the maximum amount of new checkable-deposit money that can be created by a single dollar of excess reserves given the value of R

- Multiplying excess reserves (**E**) by m, we can find the maximum amount of new checkable deposit money, **D**, that can be created by the banking system

- **D = E * m**

- **Example: R** = 0.2, E = $80

- **m** = 1/R = 1/0.2 = **5**

- **D** = E * m = $80 x 5 = **$400**

- Total money created = $500 ($100 + $400)

New reserves
$100

$80
Excess
reserves

$20
Required
reserves

$400
Bank system lending

$100
Initial
deposit

Money created