

Chapter 16 Money Creation and Deposit Insurance

1. According to your text, is there a relationship between money growth and GDP growth?
2. What is the connection between the money supply and inflation according to your text?
3. Where was the very first “fractional reserve system?”
4. What does the fractional, in fractional reserve system mean?
5. What is the typical rate of reserves that banks need to keep on checking accounts?
6. What currently can be counted as **legal reserves**?
7. What is the **required reserve**?
8. What is the current required reserve ratio?
9. How are **excess reserves** computed?
10. What are **open market operations**?
11. Is the money supply increased or decreased when the Fed purchases a security/bond?
12. What happens to the reserves of an institution that purchases a government bond or security?
13. What is the formula for the potential money multiplier?
14. What is the formula for the actual change in the money supply?
15. What causes **leakages** in the money multiplier?

16. What has been the money multiplier for M1 for several decades?
17. What has been the trend of the money multiplier for M2?
18. If a bank has no excess reserves, what other way can it get money to loan?
19. What are two additional names for the **rediscount rate**?
20. What happens to the money supply when the Fed raises and lowers the **discount rate**?
21. What is the **Federal Funds Market**? How is it used?
22. Why is the **federal funds rate** important?
23. What happens if the Fed raises the reserve requirement from 10% to 20%? How will this affect the multiplier?
24. Which has a quicker and more direct effect on money supply, lowering or raising the reserve rate or using open market operations?
25. What was the reserve requirement in 1974, what is it today?
26. What was the reason for establishing the Federal Deposit Insurance Corporation?
27. Bank failures dropped dramatically after the FDIC was established. Which decade saw an increase in bank failures?
28. What is the current maximum payment that the FDIC will pay to a depositor who's banked has failed?
29. What is bank regulation necessary according to your text?
30. Why does deposit insurance sometimes lead to riskier loans and larger losses?
31. How is **moral hazard** related to the Savings and Loan debacle, and our current sub-prime loan crisis?