**T-Account Contest**

Econ 50-Macroeconomics Date \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Student Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Student Name \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Instructions:**

**Time Limit: 45 minutes**

1. Pick your bank. Each person on the team is responsible for the T-account of one bank.
2. All transactions must be clearly recorded on the T-accounts. Remember to balance the assets and liabilities for each transaction. Not all transactions affect both the asset side and the liability side. Several transactions require you to add and subtract from the same side. No credit will be given if I cannot read/understand your entries.
3. Follow the given order of questions and transactions. Together as a team, fill-in the questions on this worksheet that precede and follow the transactions.
4. First three teams to turn in 100% (or closest to 100%) correct paperwork will win 1st, 2nd and 3rd place respectively.

Good Luck!!

**Transactions and Questions**

**Question (1):** How many excess reserves are in the banking system? $\_\_\_\_\_0\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**Question (2):**  The initial money supply is $\_\_\_500,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ (assume there is $200,000 currency outstanding)

**TRANSACTION #1:** *$50,000 cash is deposited in Best Bank.*

**Question (3):** The amount of new loans Best Bank can make is $\_\_45,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**TRANSACTION #2:** *$150,000 cash is deposited in Great Bank.*

**Question (4):** The amount of new loans Great Bank can make is $\_\_135,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**TRANSACTION #3:** *Best Bank borrows $75,000 from Great Bank.*

**Questions (5-7):** Great Bank now has $\_\_\_60,000\_\_\_\_\_\_\_\_\_\_\_ in excess reserves.

Best Bank now has $\_\_\_\_\_120,000\_\_\_\_\_\_\_\_\_\_ in excess reserves.

Best Bank pays what interest rate? \_\_\_\_\_\_\_4.00%\_\_\_\_\_\_\_\_\_\_\_\_\_\_

**TRANSACTION #4:** *Best Bank makes a $120,000 construction loan to Superior Construction Co.*

**Questions (8-9):** Best Bank now has $\_\_\_\_\_0\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in excess reserves.

Superior Construction Co. pays (at least) what interest rate? \_\_\_7.00%\_\_\_\_\_\_

**TRANSACTION #5:** *Superior Construction Co. deposits the $120,000 in Great Bank.*

**Question (10):** Great Bank now has $\_\_168,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in excess reserves.

**TRANSACTION #6:** *The Federal Reserve conducts open market operations and purchases $100,000 of government securities from each bank.*

**Questions (11-12):** Great Bank now has $\_\_268,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_ in excess reserves.

Best Bank now has $\_\_\_\_\_\_100,000\_\_\_\_\_\_\_\_\_\_\_ in excess reserves.

**Questions (13-14):** Great Bank's assets now equal $\_\_\_\_\_720,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the liabilities

equal $\_\_\_720,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Best Bank's assets now equal $\_\_460,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the liabilities

equal $\_\_\_460,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Question (15-16):** Ending money supply is now $\_\_\_620,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

How did the money supply increase? \_\_\_Successive lending and creation of deposits

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**Questions (17-18):** Suppose each bank wants to lend out their excess reserves today through interbank

lending.

How will the banks encourage other banks to borrow their money? Lower the Federal funds rate\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

How large could the money supply grow from the $200,000 monetary injection from the Fed? \_MM = 1/.10 = 10 \* 200,000 = $2,000,000\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_