

Reflection learning team

[Literature](#), [Russian Literature](#)



This week's objectives dealt with interest rates, U. S. monetary policies, and the money multiplier effect. We learned that the monetary policy we follow has many different governing bodies. The monetary policies can promote employment, stable prices, and moderate long-term interest rates. The tools that the Federal Reserve has to ensure this are the open market operations, the discount rate and the reserve requirements. One thing we found to be interesting were the reserve requirements. Every Federal Reserve Bank has certain requirements including a certain amount of money that is supposed to be kept as back up in case of emergency.

When the crash in 2007 occurred some banks got in trouble because they had no money in their reserve but they were loaning money to customers. Some banks were forced to close their doors because they did not meet or stick to the reserve requirements. The money multiplier effect was both interesting and a bit difficult for our team to understand this week. We learned that the expansion of the country's money supply depends on the bank ability to lend money. The size of the multiplier effect depends on the percentage of deposits that banks are required to hold as reserves.

This is calculated by dividing total bank deposits by the reserve requirement. For example, for every \$100 a customer deposits into the bank, \$20 must be kept in reserve. That means the multiplier is 0. 2. The other \$80 can be loaned out to other customers. That \$80 is then deposited by these customers into another bank, which in turn must keep \$20 for every \$100 deposited. This cycle continues and as more and more customers deposit money and more banks continue lending. This creation of deposits is the

multiplier effect (Investopedia, n. d.). After reading through our assigned chapters we now understand the reserve ratio more clearly.

The reserve amount is what banks keep to manage cash flow. The amount above the reserve is then available to lend out and thus puts more money back into the economy. We felt comfortable and understood the duties of the Federal Reserve System, but did not realize there were twelve regional banks, along with the main Federal Reserve Bank in Washington. Our team found this weeks material to be very interesting and informative. It was difficult at times to grasp the money multiplier effect for a few of our team members, but we all were able to clearly understand it in the end.