

The Money Multiplier

Start with Gold (Coins) only = \$100. Then assume:

1. Public wants to deposit all coins and hold only banknotes
2. Banks want to keep only 20% reserves

Step	Transaction (D=Deposit) (L=Loan)	Banks have		Public has			M1	
		Assets		Liab.	Assets			Liab.
		Gold	Loans	Notes	Gold	Notes		Loans
0.					100		100	
1.	D \$100	100		-100		100	100	
2a	L 80%=\$80	20	80		80	100	-80	180
2b	D \$80	100	80	-180		180	-80	180
3a	L 80%=\$64	36	144	-180	64	180	-144	244
3b	D \$64	100	144	-244		244	-144	244
4a	L 80%=\$51	49	195	-244	51	244	-195	295
4b	D \$51	100	195	-295		295	-195	295
5a	L 80%=\$41	59	236	-295	41	295	-236	336
5b	D \$41	100	236	-336		336	-236	336
6a	L 80%=\$33	67	269	-336	33	336	-269	369
6b	D \$33	100	269	-369		369	-269	369
...								
∞		100	400	500		500	400	500

