



- (c) What is the opportunity cost for the bank for keeping reserves? This is sometimes called a "reserve tax." Calculate the opportunity cost both in terms of the dollar amount and as a percentage of the total demand deposits.
- (d) What would happen to the opportunity cost of holding reserves for the bank if the Fed increased the interest rate on reserves?
- (e) What would happen to the opportunity cost of holding reserves for the bank if the Fed increased the percentage of demand deposits required to keep on reserve?
- (f) What would happen to the opportunity cost of holding reserves for the bank if the interest rate for loans increases?

2. Thomas Hoenig, former president of the Federal Reserve Bank of Kansas City, remarked about the Federal Reserve System: "It was designed as a public–private partnership, accountable to, and yet independent of, the government."

(a) In two to four sentences, describe in what sense is the Federal Reserve System a public–private partnership.

(b) In two to four sentences, describe what sense is the Federal Reserve System both accountable to the government and independent of it?

(c) Describe two benefits of an independent central bank.