

(d) Compute the impact on required reserves, excess reserves, and total reserves held by banks.

2. Suppose the monetary base is \$800 billion, the required reserve ratio is 5%, banks do not hold any excess reserves, and consumers hold currency balances that are about 3% of what they hold in deposits in banks. Suppose uncertainty increases in the banking sector regarding consumer default and depositors' needs causing them to increase excess reserves to 10%.

(a) Compute M1 money supply before and after the change in excess reserves.

(b) Compute the amount of deposits held in the banking sector before and after the change in excess reserves.

(c) Compute the amount of required reserves, excess reserves, and total reserves before and after the change in excess reserves.

3. Suppose an improvement in computer financial technology causes consumers to decrease the amount of money they hold in currency from 5% of the amount they hold in deposits to 1%. The monetary base is \$650 million, the required reserve ratio is 3% and banks hold an extra 2% of deposits in excess reserves.

(a) Compute the M1 money supply before and after the change in currency holdings.

(b) Compute the amount of deposits held in the banking sector before and after the change in currency holdings.

(c) Compute the amount of required reserves, excess reserves, and total reserves before and after the change in currency holdings.