



Monetary Aggregates

- ▶ Currency in Circulation (C); Reserves held by banks (R); Deposits (D)
- ▶ Required Reserves (RR); Excess Reserves (ER)
- ▶ Currency-Deposit Ratio (c) = $\frac{C}{D}$; Reserve Ratio (rr) = $\frac{RR}{D}$; Excess Reserve Ratio (er) = $\frac{ER}{D}$.



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$$\Rightarrow D = \frac{1}{c + rr + er} \times MB.$$



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$$\text{Money Supply}(M1) = C + D = c \times D + D = (c + 1) \times D = \frac{1 + c}{rr + er + c} \times MB.$$

$$\implies \text{Money multiplier}(m) = \frac{1 + c}{rr + er + c}.$$