

Money Multiplier

Dictionary of Banking Terms – Fourth Edition

Banks put money in circulation by extending credit. Assume that a bank makes a **\$100,000** loan and reserves 10% (\$10,000) to meet its Reserve Requirement, depositing \$90,000 in the borrower's bank. The borrower's bank sets aside a reserve of \$9,000, leaving \$81,000 available for another loan and another deposit. If carried to its logical extension, the \$100,000 loan would expand into more than **\$500,000** in deposits and **\$400,000** in new loans.