**Instructions – PLEASE READ THEM CAREFULLY**

* The Assignment must be submitted on (**WORD format only**).
* You must mention question number clearly in their answer.
* **Avoid plagiarism, the work should be in your own words, copying from students or other resources without proper referencing will result in ZERO marks. No exceptions.**
* All answered must be typed using **Times New Roman (size 12, double-spaced)** font. No pictures containing text will be accepted and will be considered plagiarism).

**Assignment 3 Question-Chapters: 15, 16, 17 & 18:**

**Q1**: You take $500 that you held as currency and put it into the banking system. The reserve ratio is

equal to 20%.

1. Calculate the money multiplier.
2. By how much will increase the total amount of deposits in the banking system?
3. By how much will increase the money supply?

**Q2**: At the beginning of 2018, a town has 152,000 employed people and 8000 unemployed people.

The remaining 40,000 people in the town are not in the labor force.

Based on these​ numbers:

1. Calculate the​ town's unemployment rate:
2. Calculate the​ town's labor force participation rate:
3. Calculate Suppose that 10,000 people decide to join the labor force. Of these 10,000 people 7,800 find jobs. What is the unemployment rate at the end of 2018?

**Q3:** Suppose that the T-account for First National Bank is as follows: -

|  |  |
| --- | --- |
| **The First National Bank** | |
|  |  |
| Assets | Liabilities |
| Reserves $100,000 | Deposits $500,000 |
| Loans 400,000 |  |

1. If the Fed requires banks to hold 5 percent of deposits as reserves, how much in excess reserves does First National Bank now hold?
2. Assume that all other banks hold only the required amount of reserves. If First National decides to reduce its reserves to only the required amount, by how much would the economy’s money supply increase?

**Answer:**