How Banks Create Money

Bank A Balance Sheet at Start-up

Assets	**Liabilities and Net Worth (Equity)**
Reserves from Deposits $0	Deposits $0
Loans $0	
Assets from Equity $10	Net Worth $10
Total $10	Total $10

Step 1: Bank A gets a Deposit from someone who sold a government Bond to Janet Yellen (an Open Market Purchase)

Assets	**Liabilities and Net Worth (Equity)**
Reserves from Deposits $100	Deposits $100
Loans $0	
Assets from Equity $10	Net Worth $10
Total $110	Total $110

Step 2: Bank A makes a Loan

Assets	**Liabilities and Net Worth (Equity)**
Reserves from Deposits $100	Deposits $100
Loans $90	Deposits from Loans $ 90
Assets from Equity $10	Net Worth $10
Total $200	Total $200

Step 3: Bank A's Borrower withdraws his/her funds

Assets	Liabilities and Net Worth (Equity)
Reserves from Deposits $10	Deposits $100
Loans $90	Deposits from Loans $0
Assets from Equity $10	Net Worth $10
Total $110	Total $110

Step 4: Bank B's Balance Sheet after funds are deposited from Bank A

Assets	Liabilities and Net Worth (Equity)
Reserves from Deposits $90	Deposits $90
Loans $0	Deposits from Loans $0
Assets from Equity $5	Net Worth $5
Total $95	Total $95

Step 5: Bank B makes Loan

Assets	Liabilities and Net Worth (Equity)
Reserves from Deposits $90	Deposits $90
Loans $81	Deposits from Loans $81
Assets from Equity $5	Net Worth $5
Total $176	Total $176

Step 6: Assume that Bank B's loan is deposited in Bank C, and Go to Step 4 for Bank C, etc., etc., etc. After all the etc.s are done:

1) Janet Yellen has increased the money supply by $100 with her Open Market Purchase
2) The private banking system has increased the money supply by an extra $900 with its loan operation.
3) The total money supply has increased by $1000, and banks are fully loaned out. The total banking system has $100 Reserves and $1000 Deposits.