Global Economics Lab Session #5

Q21: Technical Issues

In an economy there are Chantal, a doctor, and Gérôme, an entrepreneur with some health issues. Chantal has a deposit account at the Mickey Mouse Bank and Gérôme at the Donald Duck Bank. As in the example seen in Presentation #5 (i.e. Unit 10 of the textbook), show what happens to the balance sheets of the two banks if the following transactions occur in this order:

1. Chantal deposits $200 in Mickey Mouse Bank

2. Gérôme deposits $150 in Donald Duck Bank

3. Gérôme pays Chantal $100 for some medical services. Chantal deposits the sum at her account.

4. The Donald Duck Bank gives Gérôme a loan of $1000 to expand his business

5. Gérôme pays Chantal $120 for some medical services. Chantal deposits the sum at her account.

   • What is the amount of base money, bank money and broad money after these transactions?

   • Where, in this example, can you spot a potential principal-agent problem?

   See GELabS 5 Q1.pdf

Q2: Critical Thinking[1]

Why do you think banks tend to be more unpopular than other profit-making firms?
    Class Discussion

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[1] Ex. 10.8 Core Project Economy, Unit 10.