**Credit creation**

What is a bank deposit?

What proportion of the money supply in a modern economy is made up of bank deposits. How does this compare to the amount of cash?

Do banks have to attract deposits to be able to make loans?

How do banks create new bank deposits?

Assume that a customer deposits £1000 in their bank account (here we are making the assumption only one bank in the economy). What is this deposit from the perspective of the bank?

If the bank were to only lend out £1000 in effect the bank would be operating not as a bank but as a ?

Instead the bank uses the cash deposited as a base from which to make profitable loans to customers.

If the bank decides to hold cash of 10% of total customer deposits to meet customers desire to withdraw funds how much will it loan against the £1000 deposit? What are the total liabilities and assets of the bank?

What problems might occur as a result of this way of creating credit?