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Dear Mr. Eder,

Your summary seems to be consistent with the explanation we provided.

I hope you were able to find all the information you were looking for. Please don't hesitate if you have more questions.

Best regards,

Mélanie Danis
Public Information Agent/Agente de l'Information publique
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Jeff Eder <alive.55@hotmail.com>
Tue 2013-10-15 9:57 AM

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Dear Melanie Danis,

When you state that financial institutions are not given "the right to create money", I assume that you are referring to the government sanctioned sole right of the Bank of Canada to produce bank notes (hard currency), which commercial banks don't have.

On the Bank of Canada website in Backgrounders, Canada's Money Supply at the top of the 2nd page, it states that Commercial banks and other financial institutions provide most of the assets used as money through loans made to individuals and businesses. In that sense, financial institutions create, or can create money. Note; Not hard currency but electronic or digital money typed into data bases.

As I understand it the cycle of deposit-loan-deposit (money multiplier model) doesn't actually control the amount of money creation through issuance of loans by commercial banks. So the limit of money creation is as dependent on people and businesses as on banks. As long as people are willing to take on loans, and banks willing to grant them.

Does my summation hold true?

Sincerely yours, J. Eder

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Public Information/Information Publique <info@bank-banque-canada.ca>
Tue 2013-10-15 8:45 AM

● Jeff Eder

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Dear Mr. Eder,

Money creation refers to increases in money supply. Financial institutions are not given "the right to create money." They are given the right to take deposits and make loans. The creation of money is what results from the cycle of deposit-loan-deposit when it is repeated over and over, and it is as dependent on people and businesses as on banks.

It is therefore important to distinguish between the right to "issue money", which is the sole right of the Bank of Canada, and the ability to "create money," which, through legislation and regulation enacted by Parliament, is largely done by commercial banks through the taking of deposits and the issuance of loans.

Bank notes issued by the Bank represent only a small portion of all the money circulating in the economy at any one time. The bulk of the money supply consists of deposits that the public holds at financial institutions. The vast amount of money created in the economy is created by banks by lending out, multiple times, the money Canadians deposit with them. Financial institutions can do this because they don't have to hold in their till more than a very small amount of cash sufficient to meet any day-to-day demands by their customers. The ability of commercial banks to create money through the issuance of loans is a key function of any banking system in a modern society.

The Bank of Canada, as the nation's authority responsible for monetary policy, influences the pace of money creation in the banking system through its ability to adjust the policy rate. To

slow the rate of growth of the money supply (i.e. slow the pace of money creation by banks), the Bank of Canada raises its policy rate, which, through its influence on other interest rates—such as those paid by consumers for loans from commercial banks—makes borrowing more expensive, thus, slowing down the demand for and supply of loans. To increase the rate of growth of the money supply, the Bank of Canada does the opposite, by lowering its policy rate, which then makes borrowing more affordable.

The Bank's objective in undertaking these actions is to keep the pace of money creation to a rate consistent with achieving its inflation control target of 2% a year. As the money supply grows more quickly, people borrow more, and spend more and this puts upward pressure on prices. Similarly, as the money supply grows less quickly, people borrow less, spend less and this puts downward pressure on prices.

You'll find more information here:

<http://www.bankofcanada.ca/about/backgrounders/canadas-money-supply/>

I trust that this information is useful to you.

Sincerely,

Mélanie Danis

Public Information Agent/Agente de l'Information publique

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Jeff Eder <alive.55@hotmail.com>

Sun 2013-10-13 5:54 PM

● info@bank-banque-canada.ca

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Hello, To Whom It May Concern;

Given that in the private sector if I was to secure a loan at a private bank, the bank would create that money by typing it into their data base, in essence the bank would be creating new money. What restricts the amount new money that can be created by a private bank?

Sincerely Yours, J. Eder