

The Fed and Monetary Policy

When was the Fed Created?

What is the structure of the Fed?

What is monetary policy?

How does changing the discount rate affect the economy?

How does buying and selling bonds change the economy?

How does changing the reserve ratio affect the economy?

Expansionary Monetary Policy

Contractionary Monetary Policy

Now it's time to ask yourself.....

WWBBD?

Figure 10.10

Tools of Monetary Policy

Monetary Policy	Expansionary Policy	Contractionary Policy
A. Open market operations		
B. Discount rate		
C. Reserve requirements		

Figure 38.4
Fed Actions and Their Effects

Federal Reserve Action	Bank Reserves	Money Supply	Fed Funds Rate
A. Sold Treasury securities on the open market	↑ ↓	↑ ↓	↑ ↓
B. Bought Treasury securities on the open market	↑ ↓	↑ ↓	↑ ↓
C. Raised the discount rate	↑ ↓	↑ ↓	↑ ↓
D. Lowered the discount rate	↑ ↓	↑ ↓	↑ ↓
E. Raised the reserve requirement	↑ ↓	↑ ↓	↑ ↓

To: Members of the Federal Reserve Board

Re: Current Economic Problems

I have received the following economic data and would appreciate your recommendations for future monetary policy.

	Unemployment Rate	Inflation Rate
Last Year	4.2%	2.6%
This Year	3.9%	5.4%
Forecast for Next Year	3.8%	7.3%

1. What is the major economic problem confronting the U.S. economy?
2. What appropriate actions should the Federal Reserve take to promote stability?

Problem	Monetary Policy Tool		
	Discount Rate	Reserve Requirement	Open Market Operations
High Unemployment			
High Inflation			