Stabilization Policy
Monetary Policy

Terms		
Federal Reserve System	Board of Governors	Federal Funds rate
Tight money policy	monetary policy	open market operations
Federal open market committee	discount rate	easy money policy

McConnell and Brue reading pages 284 - 294

1. What tools can the FED use to influence the banking system's ability to create money?

2. What do open-market operations consist of?

2. When the FED buys securities (government bonds) . . . (p. 284-285)
    - commercial banks' reserves _____
    - Therefore banks will loan _____
    - And the money supply will_____
3. When the FED sells securities . . . (p. 286-287)
    - commercial banks' reserves _____
    - Therefore banks will loan_____
    - And the money supply will_____
4. When the FED raises the reserve ratio . . .
    - commercial banks' required reserves _____
    - commercial banks' excess reserves will_____
    - Therefore banks will loan_____
    - And the money supply will_____
5. When the FED lowers the reserve ratio . . .
    - commercial banks' required reserves _____
    - commercial banks' excess reserves will_____
    - Therefore banks will loan_____
    - And the money supply will_____
6. What is the discount rate?

7. When the FED lowers the discount rate . . .
    - commercial banks' reserves _____
    - Therefore banks will loan_____
    - And the money supply will_____

8. When the Fed raises the discount rate . . .

- commercial banks' reserves _____
- Therefore banks will loan_____
- And the money supply will_____

Monetary Policy, Real GDP, and the Price Level (p. 291 – 294)

9. If the economy is in a recession . . .

- the problem is _____.

the FED should . . .

- _____ the money supply by . . .
- _____ the excess reserves in commercial banks by . . .
- _____ securities or . . .
- _____ the reserve ratio or . . .
- _____the discount rate.
- This is an _____ money policy
- Interest rates will _____ and . . .
- Investment spending will _____ and . . .
- Aggregate demand will _____ and . . .
- Real GDP will _____.

10. If the economy has inflation the FED should . . .

- _____ the money supply by . . .
- _____ the excess reserves in commercial banks by . . .
- _____ securities or . . .
- _____ the reserve ratio or . . .
- _____the discount rate.
- This is a _____ money policy
- Interest rates will _____ and . . .
- Investment spending will _____ and . . .
- Aggregate demand will _____ and . . .
- Inflation will _____.

Watch What's all the Yellen About? Monetary Policy and the Federal Reserve: Crash Course Economics
https://www.youtube.com/watch?v=1dq7mMort9o&list=PL8dPuuaLjXtPNZwz5_o_5uirJ8gQXnhEO&index=10

Monetary Policy is increasing or decreasing the _____ to speed up or slow down the overall economy.

The _____ is the price of borrowing money.

- When interest rates are low, borrowers will find it easier to pay back loans so they will borrow _____ and spend _____.
- When interest rates are high, borrows borrow _____ and therefore spend _____.

The Fed manipulates interest rates by changing the _____.

- If the Fed increases the money supply, there will be plenty of money for banks to loan out. Borrowers will shop around for the best deal on a loan and banks will be forced to_____ interest rates because they are going to have to compete or else no one is going to borrow from them.
- A decrease in the money supply has the opposite effect. Less money supply means the banks have less money to loan out, so they are going to try to get the _____ interest rate possible.

Expansionary Monetary Policy

- The Fed _____ the money supply which will decrease interest rates and lead to more _____ and _____.

Contractionary Monetary Policy

- The Fed _____ the money supply - less money available will increase interest rates and _____ spending.

The three ways the Fed can change the money supply:

1. Change _____ - the fraction of deposits that banks are required to hold in reserves
   - _____ will increase the money supply
   - _____ will decrease the money supply
2. Change _____ - the interest rate the Fed charges commercial banks to borrow money
   - _____ will make it easier for banks to borrow and that will increase the money supply
   - _____ will decrease the money supply
3. _____ - when the Fed buys or sells short term government bonds
   - If the Fed buys previously issued government bonds from a bank, it increases that bank's liquidity and _____ the money supply
   - If the Fed issues more bonds, the banks will have less liquidity and _____ money to loan out and that will _____ the money supply

In the US, deciding how many bonds to buy or sell is done by the _____.