

CONCEPT: GOALS OF MONETARY POLICY

- **Monetary Policy** involves the management of _____ by _____. Why?
 - *Price Stability*: keeping inflation under control allows money to hold its value
 - > Money must act as a medium of exchange and store of value
 - *High Employment*: underused resources reduce GDP below its potential level
 - *Stability of Financial Markets*: Ensuring that markets do not fail
 - > In 1913, the Fed was created to ensure stability for *commercial banks* (i.e. depository banks)
 - > During the 2008 recession, the Fed eased liquidity problems for *investment banks*
 - *Economic Growth*: Allowing for consistent economic growth through interest rate management
 - > The interest rate determines the amount of investment by firms
 - > Firm investment is a key factor in economic growth