

CONCEPT: FEDERAL RESERVE AND THE MONEY SUPPLY

- **The Federal Reserve (the Fed)** _____ the money supply in the United States using _____

□ *Discount Policy*: setting the discount rate (rate at which _____ borrow from _____)

- Higher discount rate → _____ → _____

- Lower discount rate → _____ → _____

□ *Reserve Requirements*: setting the reserve ratio (amount of reserves banks must hold on _____)

- Higher reserve ratio → _____ → _____

- Lower reserve ratio → _____ → _____

Checkable Deposits = \$100M Reserve Ratio = 10%

Checkable Deposits = \$100M Reserve Ratio = 8%

□ *Open Market Operations*: buying and selling _____ securities to the “public” (i.e. _____)

- The Federal Open Market Committee (FOMC) handles open market operations

> Most control over money supply because they can set the volume of purchases/sales

> Easily reversible if the Fed believes previous open market operations failed

> Quickly executed

- Buying US securities → _____ → _____

- Selling US securities → _____ → _____

Key Idea: When studying monetary policy, think like this:

The Fed = _____

The Public = _____

Money Supply = money in the hands of _____