**Practice Set – Federal Reserve and Monetary Policy**

1. The FED changes the reserve requirements for banks from 10% to 8%. What will that do to banks’ ability to loan money? What will that do to the money supply? Potentially, how will the changes in money supply impact inflation?
2. The FED purchases 850 billion of treasury securities. How should this affect the money supply? GDP? Unemployment? Inflation?
3. The FED raises the discount rate from 3.25% to 3.75%. What will that do to banks’ ability to loan money? What will that do to the money supply? GDP? Unemployment? Inflation?
4. The FED sets policy to sell 750 billion of mortgage-based securities each quarter for the next year. How will this affect the money supply? How will this change in the quantity of money affect interest rates? What is the goal of this type of monetary policy?
5. The FED changes the reserved requirement for banks from 10% to 18%. What will this do to the money supply? How will this change in the quantity of money affect interest rates? What is the goal of this monetary policy?

1. The FOMC votes to lower the discount rate from 3.75% to 2.75%. What will this do to the money supply? Most likely, what effect is the FED trying to have on the economy?
2. If a bank has Total Reserves of $100,000 and the reserve requirement is 5%, How much can the bank use for loans?

1. If a married couple has a house valued at $500,000 with a mortgage balance $247,000; Retirement accounts and stock investments worth $475,000; credit card balance of $23,000 and a 2 pound gold bar, what is their net worth?
2. When you purchase a song from I-Tunes and they accept your debit card, what function of money is being demonstrated?
3. When you give the cashier at the gas station exactly $25.37 from the gas you put in your tank, what function of money is being demonstrated?

1. By putting your loose change in a container at your house to use to buy a new computer next year when you go to college, what function of money is being demonstrated?

Press Release



*Release Date: March 18, 2009*

**For immediate release**

Information received since the Federal Open Market Committee met in January indicates that the economy continues to contract.

Job losses, declining equity and housing wealth, and tight credit conditions have weighed on consumer sentiment and spending.

Weaker sales prospects and difficulties in obtaining credit have led businesses to cut back on inventories and fixed investment.

U.S. exports have slumped as a number of major trading partners have also fallen into recession. Although the near-term economic outlook is weak, the Committee anticipates that policy actions to stabilize financial markets and institutions, together with fiscal and monetary stimulus, will contribute to a gradual resumption of sustainable economic growth.

In light of increasing economic slack here and abroad, the Committee expects that inflation will remain subdued. Moreover, the Committee sees some risk that inflation could persist for a time below rates that best foster economic growth and price stability in the longer term.

In these circumstances, the Federal Reserve will employ all available tools to promote economic recovery and to preserve price stability. The Committee will maintain the target range for the federal funds rate at 0 to 1/4 percent and anticipates that economic conditions are likely to warrant exceptionally low levels of the federal funds rate for an extended period. To provide greater support to mortgage lending and housing markets, the Committee decided today to increase the size of the Federal Reserve’s balance sheet further by purchasing up to an additional $750 billion of agency mortgage-backed securities, bringing its total purchases of these securities to up to $1.25 trillion this year, and to increase its purchases of agency debt this year by up to $100 billion to a total of up to $200 billion. Moreover, to help improve conditions in private credit markets, the Committee decided to purchase up to $300 billion of longer-term Treasury securities over the next six months. The Federal Reserve has launched the Term Asset-Backed Securities Loan Facility to facilitate the extension of credit to households and small businesses and anticipates that the range of eligible collateral for this facility is likely to be expanded to include other financial assets. The Committee will continue to carefully monitor the size and composition of the Federal Reserve's balance sheet in light of evolving financial and economic developments.

1. According to the FOMC, the U.S. is in which phase of the business cycle?
2. Identify and describe the data the FOMC analyze to come to this conclusion?
3. Does the FOMC seem to be more concerned with inflation or unemployment? How did you come to this conclusion?
4. Identify and describe the tools of monetary policy that the FOMC plan to use to address the economic issues at hand?
5. According to the press release, will the Fed use expansionary or contractionary monetary policy?