Economics Worksheet: Monetary Policy and the Federal Reserve

Write the word or phrase next to its definition

Discount Rate	Prime Rate	Check Clearing
Reserve Requirements	Tight Money	Government Securities
Loose Money	Interest Rate	Fractional Reserve Banking
Monetary Policy	The FED	Credit Union

________________________ 1. The percentage of money that all banks must keep on hand, of ***all*** their deposits.

________________________ 2. This is where credit is in short supply and very expensive.

________________________ 3. The interest rate the federal reserve charges its member banks.

________________________ 4. This is where credit is abundant and cheap.

________________________ 5. The interest rate that banks charge their best customers.

________________________ 6. This is where banks are required to keep a percentage of all deposits on hand at all times.

________________________ 7. Money from a demand deposit account is transferred, to a bank where the check was cashed.

________________________ 8. The organization that performs all the banking functions for the Government.

________________________ 9. Promissory notes, or IOU's, the government issues it creditors, often in the form of bonds.

________________________ 10. Changing the money supply in order to affect the amount of credit, and the economy.

Define, or determine between, the following words or terms

11. Federal Open Market Operations ____

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12. Fractional Reserve Banking ____

13. Monetary Policy ____

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Short Answer

14. What are the 6 functions of the FED?

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15. What is the difference between ***loose*** and ***tight*** money policies? ________________________

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16. What are the ways the FED can ***increase*** the money supply? ________________________

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17. What are the ways the FED can ***decrease*** the money supply? ________________________

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Monetary Policy Worksheet **NAME ____________________**

Read the following descriptions of possible monetary policy in order to complete the worksheet.

1. If you use **Loose-Money policy** you are trying to grow the economy and create more jobs by increasing the money supply. In reality the FED would do this by lowering the reserve requirement, buying government bonds and securities through open market operations, and/or lowering the discount rate.

2. If you use **Tight-Money policy** you are trying to slow the economy down in order to fight inflation or prevent the economy from over heating and collapsing. The FED would do this by reducing the money supply. Money can be sucked out of the economy by raising the reserve requirement, selling government bonds and securities through open market operations, and/or raising the discount rate.

3. **Moral persuasion** can be used by the Federal Reserve Chairman when he reports to the American people on the state of the banking system and encourage people and banks to either save more or spend less.

4. **Doing nothing** = the economy is perfect so we will do nothing.

For each scenario, decide if the Fed would pursue a loose monetary policy or a tight monetary policy and what they might do with each of the tools they have at their disposal. Then explain why you think the Fed would pursue that particular policy. Remember that the Fed will not always take action and it only responds to major economic indicators such as GDP growth or lack thereof, inflation, housing starts (indicating an economy that is growing more houses→more purchases such as refrigerators, etc→more people at work.)

1. **Stock prices have declined for the last two weeks**.

2. **GDP dipped from 3 percent to 1 percent in the last year.**

3. **The CPI has risen 3 percent in the last six months.**

4. **The prices of cars have tripled in the last year.**

5. **GDP is growing steadily and prices are rising sharply.**

6. **The United States is experiencing both high inflation and high unemployment.**

7. **The CPI is up, and housing starts are at a fifteen-year high.**

8. We are in a recession. Factory orders are down, and the economy appears to be slumping.

9. **Consumers feel worried, inflation is low and spending is sluggish.**

10. **Unemployment is low and prices are rising steadily.**

11. **The index of leading economic indicators shows a strong move towards inflation.**

12. **The FED senses that people are not saving money.**

13. **Jobless rates are pushing 11 percent while the CPI has fallen from 8 percent to 2 percent growth.**

14. **We are in a recession but are experiencing high inflation.**

15. **The money supply appears to be tight, and prices are on the rise.**

16. **Prices are stable, and the GDP is growing at a 3 percent pace.**