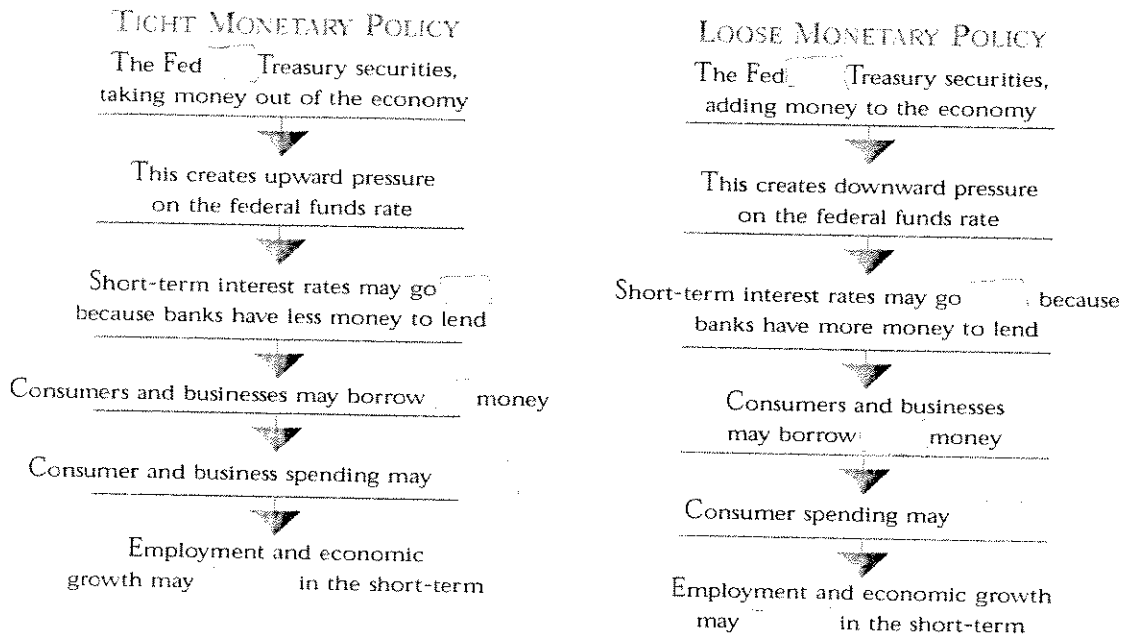


# OPEN MARKET OPERATIONS

Classroom Visual #4



Personal Finance

“What Should the Fed Do?” Video

NAME: \_\_\_\_\_

ANSWERS

1. Throughout the economy, prices are relatively stable. However, the price of sneakers has doubled in the past month due to a world wide shortage of rubber. What should the fed do? \_\_\_\_\_
2. Prices are going up on everything. CD's are up 12%. Food is up 14%. Gasoline is up 8%. Overall inflation is at 9% and seems to be rising. What should the fed do? \_\_\_\_\_
3. The economy is in the dumps, growing less than 1% a year. It seems on the verge of a recession. At the same time, inflation is extremely low. Overall prices are rising at less than 2% a year. What should the fed do? \_\_\_\_\_
4. Inflation is on the rise. Prices are going up at an annual rate of 7%. At the same time, unemployment is also high. 8% of Americans are out of work. High inflation and high unemployment, what should the fed do? \_\_\_\_\_
5. Citizens are protesting against Main Street Bank and Trust. They say the bank is closing too many branches and not lending enough in certain areas of town. What should the fed do? \_\_\_\_\_
6. Broad Street Bank is in serious financial trouble. The bank has made hundreds of loans that may not be paid back. Bank examiners from the federal reserve discover the problems on their annual inspection. What should the fed do? \_\_\_\_\_
7. First county bank is about to go broke. The tiny bank has already borrowed millions from the Federal Reserve. Now it's asking for more. If the Fed says no, the bank will shut its doors. What should the fed do? \_\_\_\_\_
8. A tornado has hit the town of Great Plains. The entire county is without power. Local businesses won't accept checks or credit cards and local banks are running short of cash. What should the fed do? \_\_\_\_\_

Options

- |                              |   |
|------------------------------|---|
| A. Do nothing                | E. Decrease the money supply                    |
| B. Increase Interest Rates   | F. Meet with banks to discuss lending policies. |
| C. Decrease Interest Rates   | G. Lend the bank money                          |
| D. Increase the money supply | H. Stop lending the bank money                  |

# ***Tools of the Federal Reserve Worksheet***

*Directions:* Answer the following questions using complete sentences.

- 1.** If an economy is expanding too rapidly & the economy is therefore suffering from high inflation, then would putting more money in the economy make matters better or worse? Explain.
- 2.** If an economy is not expanding & the economy is therefore suffering from high unemployment, then would putting more money in the economy make matters better or worse? Explain.
- 3.** How can the Fed put more money into the economy?
- 4.** How can the Fed take money out of the economy?
- 5.** If you were a member of the Board of Governors & were faced with a high inflation rate, then how could you lower it using reserve requirements?
- 6.** If you were a member of the Board of Governors & were faced with a high unemployment rate, then how could you lower it using the discount rate?
- 7.** If you were a member of the Federal Open Market Committee (FOMC) & were faced with a high inflation rate, then how could you lower it using open-market operations?
- 8.** If you were a member of the Federal Open Market Committee (FOMC) & were faced with a high unemployment rate, then how could you lower it using open-market operations?
- 9.** What tends to happen to the unemployment rate (at least in the short run) if the Fed works to lower the inflation rate? Why?
- 10.** What tends to happen to the inflation rate if the Fed works to lower the unemployment rate? Why?