

THE FED, MONETARY POLICY & THE FINANCIAL CRISIS:

History Haus > Unit 5 Page > **Item #15**

1. Define these terms as you go:

<p>Federal Reserve (p. 407, 413)</p>	
<p>Monetary policy (p. 415)</p>	
<p>Reserve requirement (p. 415)</p>	
<p>Member Bank Reserve (MBR) (p. 418)</p>	
<p>Easy money policy (p. 419)</p>	
<p>Tight money policy (p. 419)</p>	
<p>Open market operations (p. 420, 422)</p>	
<p>Discount rate (p. 422)</p>	

Use chapter 15.1 (pages 407-413) to answer the questions below

2. When was the Federal Reserve created?

3. Who owns the Fed?

4. Which banks MUST belong to the Fed (must be member banks)?

5. How many members sit in the Fed's Board of Governors? Who appoints these members and approves their appointment and how long do they serve?

6. Read the last 2 paragraphs on p. 413: What are some of the Fed's important functions for the United States government?

Use chapter 15.2 (pages 415-424) to answer the questions below

7. What is a fractional reserve system and what counts as legal reserves for a bank?

Use chapter 15.2 (pages 415-424) to answer the questions below

8. How do fractional reserves INCREASE the money supply? (see Figures 15.4 and 15.5 for examples)

9. Read the section on “Discount rate” on p. 422. Try to explain why the Fed can influence the interest rates that banks charge their customers.

Figure 15.6 (p. 423): Summary of Monetary Policy Tools

Fill in the missing parts of the table below.

TOOL	FED ACTION	EFFECT ON EXCESS RESERVES	WHAT HAPPENS TO MONEY SUPPLY
Reserve Requirement	LOWER IT		
	RAISE IT		
Open Market Operations	BUY BONDS		
	SELL BONDS		
Discount Rate	LOWER IT		
	RAISE IT		

Use the vox.com link (see Item #15 on Unit 5 page of web site) to answer these questions:

10. What did the Fed do in the early stages of the crisis? (card 3) What does it mean for an economy to be “zero bound”? (card 4)

11. What was “targeted assistance to financial institutions” (card 5)?

12. What is “Quantitative Easing” (card 6) and has it created higher inflation (card 7)?

13. What is “Forward Guidance” (card 9)? How well has the Fed’s overall strategy worked (cards 10 & 12)?