Economics **Name: ____________**
Federal Reserve & Monetary Policy **Period: ______**

1. Define: (pgs 419-421)
   a. Monetary Policy

   b. Reserves

   c. Reserve Requirements

2. How many Federal reserve Banks are there? (pg 422)

3. What is the FOMC and what does it do? (pg 423)

4. What are the functions of the Federal Reserve? (pages 425-428)

   Serving the Government

   a.

   b.

   Serving Banks

   c.

   d.

   e.

   Regulating the Banking System

   f.

   g.

Although the items listed above are various roles played by the Fed, the MAIN thing the Fed does is regulate the money supply. Read pages 427-428.

5. What happens to consumer's demand for cash as interest rates rise? Why? (page 428)

6. What happens if there is too much money in the economy? (page 428)

7. How do banks create money? (page 429-430)

8. What determines the maximum amount a bank can loan? (page 430)

9. Define: Required Reserve Ratio. (page 430)

10. What is the Money Multiplier Formula? (page 430)

11. Define Excess Reserves (page 431).

12. What are the three tools used by the Federal Reserve to create (or destroy) money? (pages 431-434)
    a.
    b.
    c.

13. Define:
    a. Discount Rate (page 431)
    b. Federal Funds Rate (page 433)
    c. Prime Rate (page 433)

14. Which of the three tools is the most important, and the most often used? (page 433)

15. Describe Open Market Operations (OMO). (page 433)

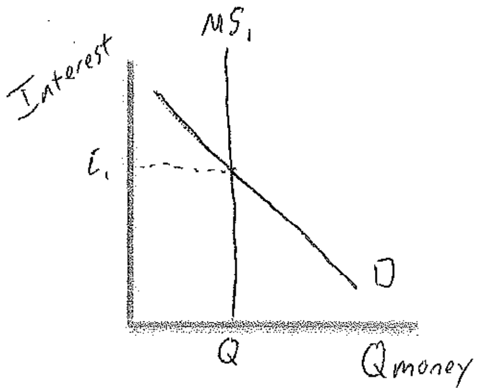
16. When the Federal Open Market Committee (FOMC) wishes to INCREASE the money supply, what does it do? (page 433)
    a. How does this action affect interest rates? (in class – and page 435-436)
    b. What economic condition is the Fed combatting when they enact this 'easy money' policy? (in class – and page 435-436)

17. When the Federal Open Market Committee (FOMC) wishes to DECREASE the money supply, what does it do? (page 434)

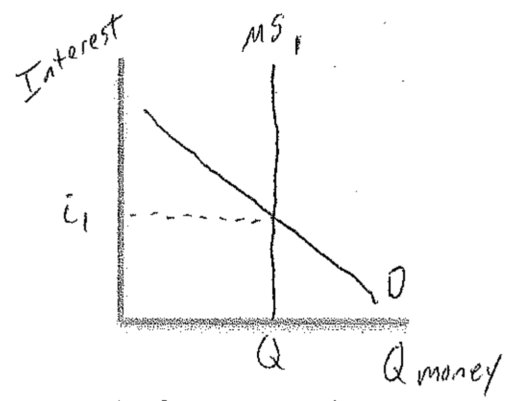
   a. How does this action affect interest rates? (in class – and page 435-436)

   b. What economic condition is the Fed combatting when they enact this 'tight money' policy? (in class – and page 435-436)

18. On the graphs below, show the effect of an increase in the Money Supply (MS) on interest rates. For graph 1, show "Easy Money Policy" and on graph 2 show "Tight Money Policy"



Easy Money Policy



Tight Money Policy