# Federal reserve tends essay

This paper tends to define and explain the three types of tools used by the Federal Reserve in order to change the monetary supply.

It is discussed in this paper what type of tool do the Federal Reserve use whenever economical growth occurs. It is also discussed in this paper which type of tool is used whenever economic recesses occurs. In this paper, matters about the future strategy or style of the current tools will also be discussed so as to the explanation why it should be changed and the benefits that this said change or changes would bring. Three Distinctive Tools of the Federal Reserve

1.

The discount rate In this tool, the Federal Reserve Banks do a charging to their individual member banks for the means of short-term kind of loans. It is explained through example that if the Federal Reserve descends the discount rate, it becomes more profitable or productive because by this means the Fed is said to be putting money into the economical circulation. On the other hand, if Fed decides to lessen the money circulating in the economy, they could elevate the rate of discount; by this means they tend to lessen the profit of banks through borrowing money from the Federal Reserve.

This act provides more cash on the Federal Reserve’s deposit making the money in the economical circulation lesser (org, 2006).

2. The open market operation This tool is said to be the one that Fed prefers in the means of effecting economic change. This tool explains the buying and

selling of the united state government securities directly on the open market. Its purpose is to affect certain federal fund rate (org, 2006). 3. The reserve requirement This tool explains the part of a certain member bank's particular deposits which must be hold on their own regional reserve banks or in the member bank's own vaults (org, 2006).

Adjustment on a quickly growing economy If the economy is quickly growing, the Fed would bind and decrease or reduce the supply of money and they could adjust through doing rise in the bank rate, through selling of government securities to certain banks in order to curb inflation and also to contact the said money supply, and lastly, they could increase the ratio of the variable reserve such as statutory liquidity ratio and also cash reserve ratio (SolutionLibrary.

com, 2006). Adjustment during an economic recession If economic recession occurs, the Fed adjust through the means of increasing credit and increasing the money supply into which they are to do reduction or decrease in bank rate, buying of securities from certain banks in order to increase the money supply, and also the reduction in the ratio of variable reserve such as to statutory liquidity and also the ratio of cash reserve (SolutionLibrary. com, 2006).

Conclusion

As years passed the performance of Federal Reserve tends to be outstanding and coping to the innovations made in the means of banking, therefore no further changes should be made. Example of the said benefits or good performance of the Federal Reserve's tools is included to Susan Philip's testimony that as what it has been in the past, the tools of the Federal Reserve still stands as the cornerstone on banking and caused an evidently improving strength. She also said that the process of the tools were in favorable to the development of banking industry (Phillips, 1997).

# References

Federal Reserve – Monetary Policy [Electronic Version] from http://www. federal-reserve.

org/monetary-policy. htm. Phillips, S. M. (1997). The Federal Reserve's supervisory processes [Electronic Version] from http://www.

federalreserve. gov/BOARDDOCS/TESTIMONY/1997/199710082. htm#pagetop. SolutionLibrary. com. (2006).

Sample Economics Solution [Electronic Version] from http://www. solutionlibrary. com/samples/view_sample. php? posting_id= 41824.