Federal reserve eco 372

Government

Economic strategy can overwhelm some, but one who understands the idea of howmoneycan stimulate or dissolve the economic market obtains an understanding of the Federal Reserve. The Federal Reserve is a bank in which other banks loan and call upon when in need. The Federal Reserve Bank ensures all funds in Community and other federally accredited banks, also known as FDIC. Even though the Federal Reserve is a bank it is impacts the economic growth or decline in ways of monetary policy and stimulation or dissolve. The Federal Reserve Bank uses a tactic known as discount rate, which is the term used for the interest charged for loans by banks.

When the discount rate is low, banks can increase the amount of loans offered, as well as lower the interest rate in their location. When the discount rate is high, banks will decrease the number of loans and raise the interest rates they charge. The Federal Reserve can use the power of the discount rate to increase or decrease the amount of money in circulation. Banks may even need to " share" the excess or surplus of funds in their reserves with another bank; this is known as Fed Funds. These funds carry an interest rate as well.

The interest rate may be higher or lower depending on the Federal Reserve. The higher the interest rate the more likely a bank is wanting to loan to another bank. If it is lower the desire will be undesirable. The Discount and Fed Funds rate correspond, the Discount rate is normally set slightly below the Fed Funds rate in effort to increase the money in circulation. When the discount rate is above the Fed Fund rates then the money in circulation is decreased. The Federal Reserve Bank is located in each region to allow for an even distribution among the United States.

Each of the Reserve Banks are governed by the Federal Reserve System's Board of Governors who have been nominated by the President and confirmed by the Senate. The Chairman and Vice Chairman of the Board are then appointed by the President from the confirmed members. The members' term are each 14 years in length, with new members being nominated and confirmed every two years on even-numbered years. The Chairman and Vice Chairman will serve for four years in the respective title without affecting their member status on the Board.

The Federal Reserve Board of Governors will assist in recommending stimulus programs when needed. These programs assist in building the economy without relying on the banking orfinanceindustry heavily. Expansionary and Contractionary Fiscal Policy may also be needed when programs seem to be ineffective. After one has been able to learn the basics of how the Federal Reserve works then the process of understanding the measures needed to affect the economic outcome may become easier to understand. This process is done by the way of government involvement with the budget, fiscal and monetary policy.

Each of the procedures are meant to assist in building the economic stability, and to help ensure the soundness of the United States currency. Every congressional budget planning session affects the need for the monetary policies for the Federal Reserve. After the Board of Governors is nominated and confirmed they are ready to get in and work on stabilizing the economy along with the monetary policies needed to build for the future. The Board of Governors will sit in position for 14 years, this will allow them to see and gain a better understanding of the true economic cycle.

This will allow for a better gage on the flow of the economic path. After obtaining an understanding of the Federal Reserve, one will be able to identify and understand the measures taken to assist in maintaining the proper stabilization in which employment increases and the economic market is sustained by the open market. The open market is maintaining by the buyers and sellers in the economy. These are the businesses people work and shop at daily. The major focus on the economic model is the open market and this is apparent with the Federal Reserve and the tools for the monetary policy.