

How does the federal reserve control the money supply? assignment

[History](#)



1. Describe three ways in which the Federal Reserve can change the money supply. The Federal Reserve System “ The Fed” controls the money supply in the United States by controlling the amount of loans made by commercial banks. New loans are usually in the form of increased checking account balances, and since checkable deposits are part of the money supply, the money supply increases when new loans are made and decreases when they decrease.

The funds that banks can potentially loan are those in their excess reserves, so to control loans, checkable deposits, and ultimately the money supply, the Fed influences the excess reserves that banks have available to them. The three ways that it does this are: 1??? through changing the required reserve ratio, 2??? allowing banks to borrow from it (the Fed) at the discount rate, and 3??? conducting open market operations (buying and selling bonds). (www. dushkin. com) 2.

If the Federal Reserve is going to adjust all of these tools during an economy that is growing too quickly, what changes would they make? Influence market perceptions by raising interest rates. (www. investopedia. com) 3. If the Federal Reserve is going to adjust all of these tools during an economic recession, what changes would they make? Lower the Interest rates. With lower interest rates the consumer favors taking out loans, which in turn the take the money and spend, spend, spend and the economy grows. (www. money. howstuffworks. om) 4. What changes, if any, to the current condition of these tools would you make at the next meeting of the Federal Reserve? By implementing a flat tax rate. You would see growth and unemployment rates would go down, the U. S. could begin with a 17 percent personal and <https://assignbuster.com/how-does-the-federal-reserve-control-the-money-supply-assignment/>

business rate, with “ generous exemptions on personal income,” so that a family of four, for example would pay no tax on the first \$46, 000 and only 17 percent above that. It works in other countries, why couldn't it work here? (www. worldnetdaily. com)