Monetary policy in the united states

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1. Three major issues that the FED confronts can be d as - a. Controlling interest rates: This hints towards the role that the FED plays as a monitoring agency. Lower interest rates will serve as an incentive to businesses to invest into capacity expansion, thereby impacting the GDP in the long run.

b. Controlling inflation: Inflation is one of the major issues which confront the FED. The economy of the United States has experienced high levels of price rise in the volatile 1970's, and as a result price stability became a major issue with policy makers. However these measures may actually put a brake on the growth rate of the economy and result in the rise of unemployment (The Structure of Central Banks: The Federal Reserve and the European Central Bank n. d).

c. Limit foreign exchange market volatility: Another issue which concerns the FED is the issue of instability of the U. S. currency with respect to other foreign currencies.

2. As a central agency the FED can seriously affect the manner in which it can affect the banking system. Firstly, it monitors the sale of different government instruments. In this manner it affects the rate of interest in the market and ensures the growth in credit and money supply.

Secondly, it also fixes the manner in which these instruments are purchased from the public and corporations, thereby affecting the interest rate again.

Thirdly, the FED can monitor the effectively monitor the amount of lending, thereby influencing the price of the securities and bank stock.

3. Very simply put the reserve requirements are the amount of vault cash and deposits that the banks are stipulated to hold with themselves. Less money in the reserves would imply more money available - the bank will have more loan able funds at its disposal, thereby having favorable

implications on the cost of transactions and the bargaining capacity of these institutions with other bodies. The changes in the reserve requirements are made rather infrequently by the government, it may even be the fact that this measure has been employed only once or twice in a decade (Jhonson 2005).

The discount rate is the price the central bank, other financial banks pays while engaging themselves in money related transactions. When the discount rate is high, banks would not want to borrow from the central bank. In case they have to, they would try to pass on this cost to their customers. A high cost, in the form of a higher rate of interest, will discourage borrowing.

4. The most important impediment to the FED's successful meeting of the deadlines and achieving targets are - policy measures are interlinked, and often negatively. Moreover as because of the fact that the effects are not quantifiable for a span of time, and the scope of politics asks for an immediate solution, the viability of these measures are often questioned. Thus the goal of maintaining a steady growth rate in the economy will come in the way of a policy for stabilizing interest rates. Similarly, money supply moderations imply that there will be interest rate fluctuations in the economy.

References

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The Structure of Central Banks: The Federal Reserve and the European Central Bank. No Date. Retrieved August 21, 2009 from www. oswego. edu/edunne/340ch16. htm