The federal reserve essay

Finance, Financial Analysis

The Federal Reserve Since its inception, one of the chief functions of the Federal Reserve has been to regulate the country's monetary policy. The ever-changing economy must have many recourses to compliment the changes, otherwise, instability and economic crises might ensue.
When there is too much money circulating in the economy and the supply of goods not adequate enough to fulfill the needs or demand of the people, inflation occurs.

Inflation would be a serious problem if the Federal Reserve didn't know how to change the monetary policy accordingly. Instead, the Fed responds by cutting off the money supply, and actually takes more money into its base. In addition to these strategies, people are encouraged to start saving by higher bond and savings account rates. This reduces spending so the economy can reestablish some order. This helps to keep inflation down and regulate the system.

When there is too little money circulating in the economy and the supply of goods is mostly out of reach of the consumers who need them, a recession and unemployment occur. Purchases lessen and as a result, businesses must lower the prices of their goods and therefore have less money to buy supplies. The Fed regulates these problems by tossing more money into the economy and encouraging buying and increasing demand. As a result more people are buying products which cause the need for higher supplies, and therefore, new workers are needed to accommodate the needs of the people.

When the economy experiences high purchasing rates, nearly full employment, and high production an expansion of the economic system occurs.