The federal reserve

Money has three uses. Money is a medium of exchange, a unit of account, and a store of value. When used as a medium of exchange it is an item that buyers give to sellers when purchasing goods and services. When money operates as a unit of account it is considered the yardstick people with which people use to post prices and record debts.

Finally, when money is used as a store of value it is an item that people can use to transfer purchasing power from the present to the future. Money is intended to expedite trade benefiting both parties participating. The use of money among individuals and societies seems to reflect that the ultimate purpose of money is to make life better. If it doesnt do that, it is being used incorrectly. Meanwhile, the function of money requires faith in its value. If the government prints too much money it can interfere with the proper functioning of currency and the economy. Money determines what prices are paid for goods and services, not the participants in trade or the market.

So ultimately, the purpose of money, the bettering of life, can be impacted negatively. The U. S. Federal Reserve System is responsible for regulating the size of our nations money supply, the availability and interest rates of credit, and the foreign exchange value of currency. The central bank contracts and expands the money supply by adjusting the reserve requirement. Also acting as an agent of sorts for the government, issuing currency to be used as legal tender, supervising the operations of the commercial banking system, and implementing monetary policy.

The most important way the central bank can affect the monetary base is by the changing the reserve requirements. Doing so can influence people to

take out loans and finance projects they might not ordinarily have the resources to fund. They also influence the economy by increasing or decreasing the supply of money and credit.

Today, central banks regulate the money supply by buying and selling assets such as government bonds. They may also raise or lower the discount rate to discourage or encourage borrowing by commercial banks. The goal in doing this is to maintain conditions that support a high level of employment and production and stable domestic prices. There has been consistent increasing emphasis on the relationship between monetary and other national economic policies. If the central bank wishes to lower interest rates, it purchases government debt, thereby increasing the amount of cash in circulation or crediting banks reserve accounts. Conversely, it can lower the interest rate on discounts or overdrafts.

If the interest rate on such transactions is sufficiently low, commercial banks can borrow from the central bank to meet reserve requirements and use the additional liquidity to expand their balance sheets, increasing the credit available to the economy. But how does this tie in to unemployment Any time there is an unemployment rate that falls below a certain level, the Fed gets singled, so to speak. When workers are in short supply, businesses that want to hire need to be able to offer higher wages. Doing so increases production costs.

If the higher wages are not based on increased productivity, businesses will have to pass them on to the consumer in the form of higher prices to reach equilibrium. When this happens, the positive effect of offering the higher

wage in the first place is canceled out. To help in matters such as these, the Fed can slow the growth rate of money and credit so that the economy grows at a more sustainable pace. Not by leaps and bounds. By conducting their monetary policy in a fashion that keeps inflation at lower, more predictable levels, the Fed can help create a less tense environment for businesses and consumers.

Helping to reduce uncertainty in the marketplace is one of the greatest services the Fed can perform for us. In stable economic times, business decisions do not have to be postponed, investments will increase and more people will be hired for more jobs. Stability keeps the economy growing and producing at high levels. Monetary policy cannot directly affect the number of jobs available or force the economy to operate at full employment all the time, but it has a huge impact on the economic environment, business activity, and the labor market. By fulfilling its mission to promote steady growth in the nations money supply; all the while anticipating inflationary and recessionary triggers, the Fed must consider both the short- and long-term effects of its actions on the health of the U.

S. economy. By helping create a stable and healthy environment, opportunity for more and better jobs in the future are provided for us.