# Federal reserve bank changing money supply assignment

History

Three ways the Federal Reserve Bank can change the money supply. One way the Federal Reserve Bank can change the money supply is by purchasing U. S. government securities from financial institutions. They can create “ funds” or credits on their balance sheets in exchange for the securities. The second policy the Federal Reserve can use is the discount rate. This is the interest-rate the Federal Reserve charge banks for their loans. They can either increase or decrease this rate to encourage or discourage banks to borrow their money to make loans to the public.

The last way the Federal Reserve can change the money supply is by regulating the amount of liquid reserves they keep on hand. The higher the reserve requirement, the less money available to for the bank to make new loans. If the economy is growing too quickly, what changes could they make? When the economy is growing too quickly and the money supply is growing too quickly, then inflation will result. The goal of the monetary policy is to fight inflation so that money’s purchasing power isn’t reduced. They do this by influencing the amount of money and credit flowing through our financial system.

They relieve inflationary pressures by slowing the growth of the money supply. If banks have less money to lend, then it will cause the decrease in the money supply that is needed. If the Federal Reserve adjusts all these tools during a recession, what changes would they make? During an economic recession, there are a few things the Federal Reserve Bank can do to stimulate the economy again. The Fed can lower interest rates on the money they lend out. This encourages people to borrow money and go out and spend it. In the past, refund checks were issued to the public to stimulate the economy.

A good example is the economy following the September 11 terrorist attack. To prevent firms from defaulting on loans, the Federal Reserve took steps to provide additional funds for out financial system. The allowed banks to borrow more money increased the Federal Reserve Float form $2. 9 billion to $22. 9 billion putting an additional $20 billion into the baking system. They also purchased government securities in the marketplace putting $30 billion into the hands of private citizens and businesses. What changes, if any, would you make at the next meeting of the Federal Reserve?

I would not suggest any major changes other than the one already in progress. Consumers are rapidly switching form paper checks to electronic payments, and financial institutions adopt electronic check processing. Cleveland, Philide3lphia, Dallas and Atlanta are already regional check processing sites. In 2008, we should have 7 sites. As more people switch to electronic payments, the Federal Reserve should continue to renew and modify the check infrastructure system. Fettig, D. (2008, March 31). Federal Reserve Banks Announce Restructuring Schedule Changes. Retrieved August 24, 2008, from Financial Services Policy Committee: http://www. ederalreserve. gov/newsevents/press/other/20080331a. htm Johnson, M. (n. d. ). Federal Reserve System. Retrieved August 24, 2008, from The Library of Economics and Liberty: http://www. econlib. org/LIBRARY/Enc/FederalReserveSystem. html O’Sullivan, A. , Sheffrin, S. , & Perez, S. (2008). Economics Principles, Applications, and Tools. Upper Saddle

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