Steering Monetary Policy Through Unprecedented Crises

What is Monetary Policy?

- What the Federal Reserve does to influence the amount of money and credit within the United States.
- Goal: promote maximum employment, stabilize prices, and moderate long-term economic growth.

Who's in charge?

The Federal Reserve, often referred to as the Fed, is the central bank of the United States. It was created by the Congress to provide the nation with a safe, liquid, and efficient payments system, regulating credit to promote maximum employment, stable prices, and moderate long-term economic growth.

What types of Monetary Policy are there?

- Open Market Operations: The Federal Reserve buys or sells government securities to influence the level of reserves in the banking system and thus the supply of money and credit in the economy.
- Discount Window Operations: The Federal Reserve lends directly to banks in financial distress.
- Setting Interest Rates: The Federal Reserve influences the federal funds rate, which impacts the cost of credit for banks.
- Direct Lending: The Federal Reserve lends directly to financial institutions in emergency situations.

What are the tools of Monetary Policy?

- Open Market Operations
- Discount Window Operations
- Setting Interest Rates
- Direct Lending

What does the FOMC do?

The Federal Open Market Committee (FOMC) determines the nation’s monetary policy.

Let's assume policymakers faced an unemployment rate of 10% and interest rates are too high. The Federal Reserve could enact which kind of monetary policy to encourage economic growth?
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What is Monetary Policy?

- What the Federal Reserve does to influence the amount of money and credit within the U.S. economy.
- Goal of MP: to promote maximum employment, stabilize prices, and moderate long-term economic growth.

Who's in charge?

The Federal Reserve - The Federal Reserve System, often referred to as the Federal Reserve or simply “The Fed,” is the central bank of the United States. It was created by the Congress to provide the Nation with a safe, efficient, and monopolistic monetary and financial system.

What does the FOMC do?

- The Federal Open Market Committee (OMC) is the committee that decides the nation’s monetary policy.

What are the tools of Monetary Policy?

- Open Market Operations: refers to the buying and selling of government securities in open markets to influence the supply of money in the economy.
- Reserve Requirements: the amount of reserves that banks are required to keep on deposit with the Federal Reserve.

What types of Monetary Policy are there?

- Conventional Monetary Policy: refers to the traditional tools of monetary policy, including interest rates and reserve requirements.
- Non-Conventional Monetary Policy: refers to policies that are outside of traditional monetary policy, such as quantitative easing.

Caseism.com

- Caseism.com is a website that provides information and resources about monetary policy and economics.
- Caseism.com offers a variety of articles, videos, and tools to help understand monetary policy.

Let's assume policymakers feel employment is too low and interest rates are too high. The Federal Reserve could enact what kind of monetary policy to encourage economic growth?
What is Monetary Policy?

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- The Federal Reserve- The Federal Reserve System, often referred to as the Federal Reserve or simply "the Fed," is the central bank of the United States. It was created by the Congress to provide the nation with a safer, more flexible, and more stable monetary and financial system.
What types of Monetary Policy are there?

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- Contractionary - slows the rate of growth in the money supply or outright decreases money supply in order to control inflation.
- Expansionary - increases money supply in order to lower unemployment, boost private-sector borrowing and consumer spending, and stimulate economic growth.
What are the tools of Monetary Policy?

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- Open Market Operation
- Reserve Requirements - interest rate charged by Federal Reserve Banks to depositary institutions on short-term loans.
- Discount Rates - portions of deposits that banks must maintain either in their values or on deposit at a Federal Reserve Bank.
What are Open Market Operations?

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- Open market operations refers to the buying and selling of government securities in the open market in order to expand or contract the amount of money in the banking system, facilitated by the Federal Reserve (Fed). It's flexible and the most used tool for Monetary Policy.
What does the FOMC do?

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- The Federal Open Market Committee formulates the nation's Monetary Policy.
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Examples of MP:
• The Great Recession: As housing prices began to drop and the economy slowed, the Federal Reserve began cutting its discount rate from 5.25% in June 2007 all the way to 0% by the end of 2008.
• To control high inflation, policymakers raised interest rates to reduce money supply.