Visual 1
What You Will Learn from This Lesson

- How to draw conclusions from economic data from 2007-2009 regarding inflation, national and state unemployment, and real GDP growth.

- What the Fed's traditional monetary tools are and how they were used during the recent financial crisis.

- What new monetary tools the Fed employed during the recent financial crisis.

- How the Fed's actions affected (and are still affecting) the money supply.

VISUAL 2
TRADITIONAL TOOLS OF THE FED

Reserve requirements

- The percentage of checking deposits that the Fed requires banks to hold as reserves. Extra reserves can be loaned out.
- The Fed rarely alters these requirements.
- When the required reserve ratio is increased, the money supply contracts. When the required reserve ratio is decreased, the money supply expands.

Discount rate

- The interest rate the Fed charges banks for short-term loans.
- To conduct easy monetary policy, the Fed lowers the discount rate. To conduct more restrictive monetary policy, the Fed increases the discount rate

VISUAL 2, CONTINUED
TRADITIONAL TOOLS OF THE FED

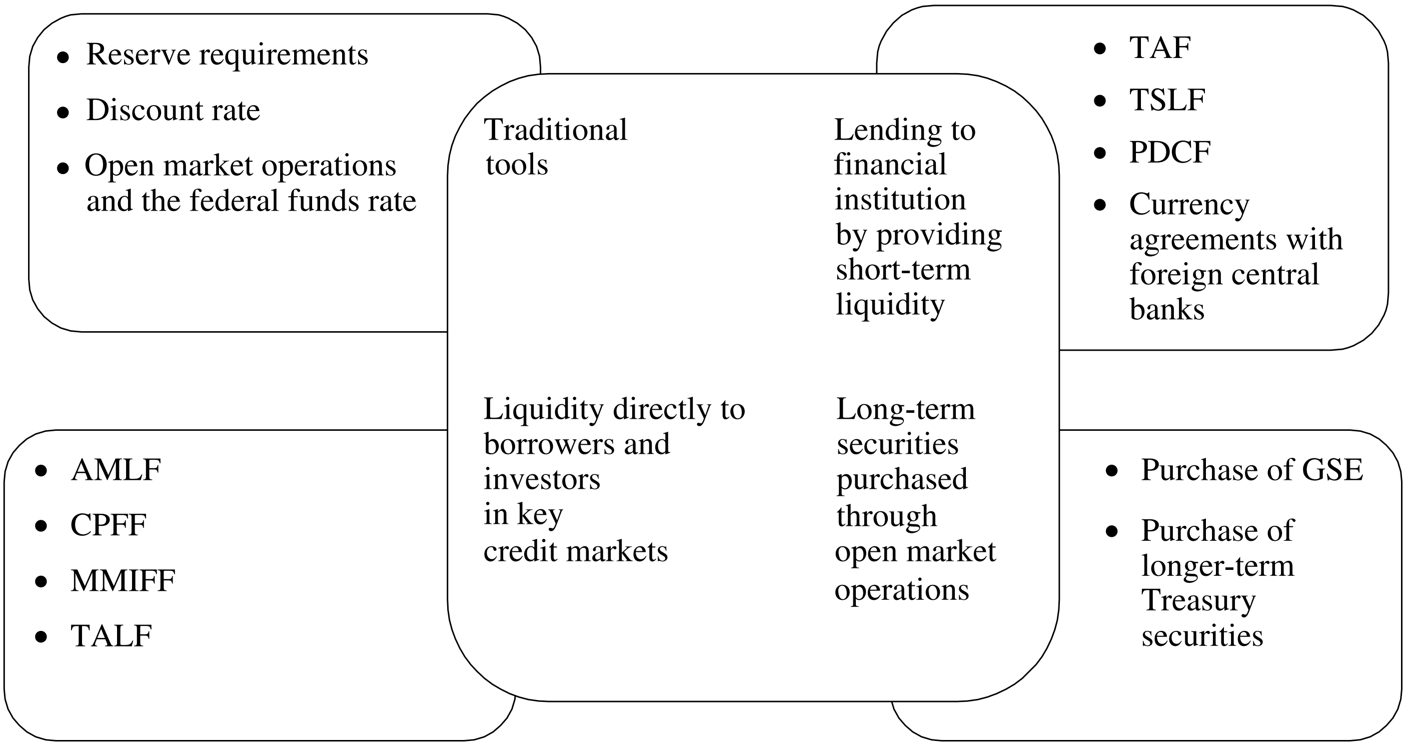
Open market operations

- The Fed buys and sells existing Treasury securities on the open market.
- To conduct easy monetary policy, the Fed buys securities, which means that sellers end up with fewer securities and more money. To conduct more restrictive monetary policy, the Fed sells securities and buyers end up with more securities and less money.

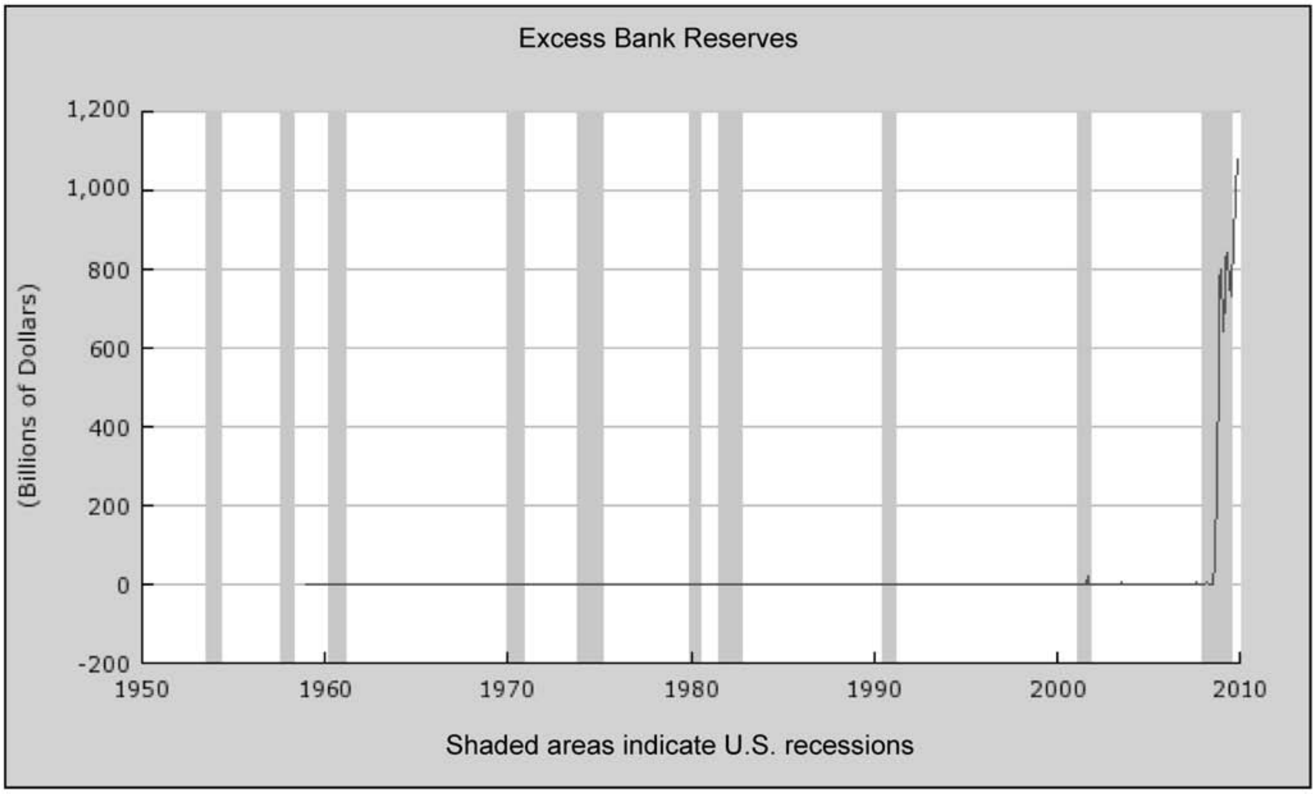
A key indicator of monetary policy is the federal funds rate, which is the interest rate that banks charge other banks for overnight loans of reserves.

- When the Fed buys Treasury securities, banks end up with increased deposits and reserves. The supply of reserves will have increased and the federal funds rate will, therefore, decrease. If the Fed sells securities, reserves decrease and the federal funds rate increases.

VISUAL 3
TRADITIONAL PLUS NEW TOOLS OF THE FED

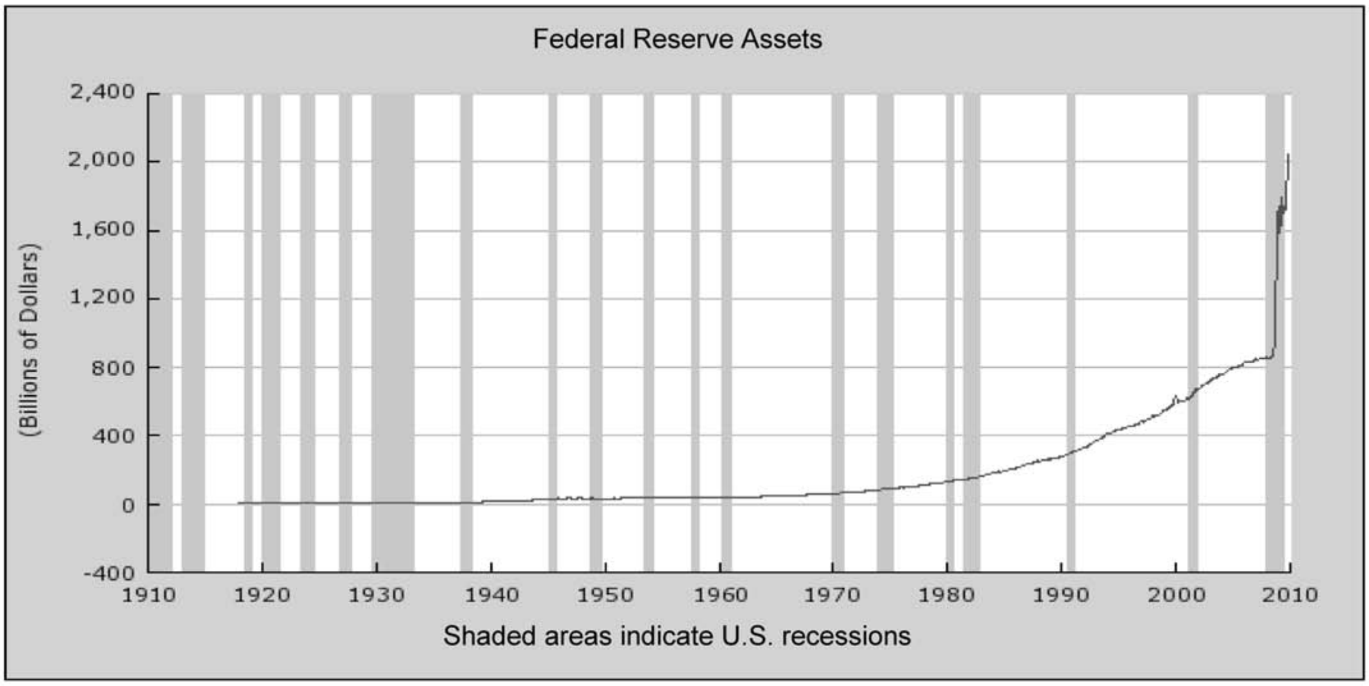


Visual 4
Excess Bank Reserves



Source: http://research.stlouisfed.org

VISUAL 5
THE FED'S BALANCE SHEET



Source: http://research.stlouisfed.org

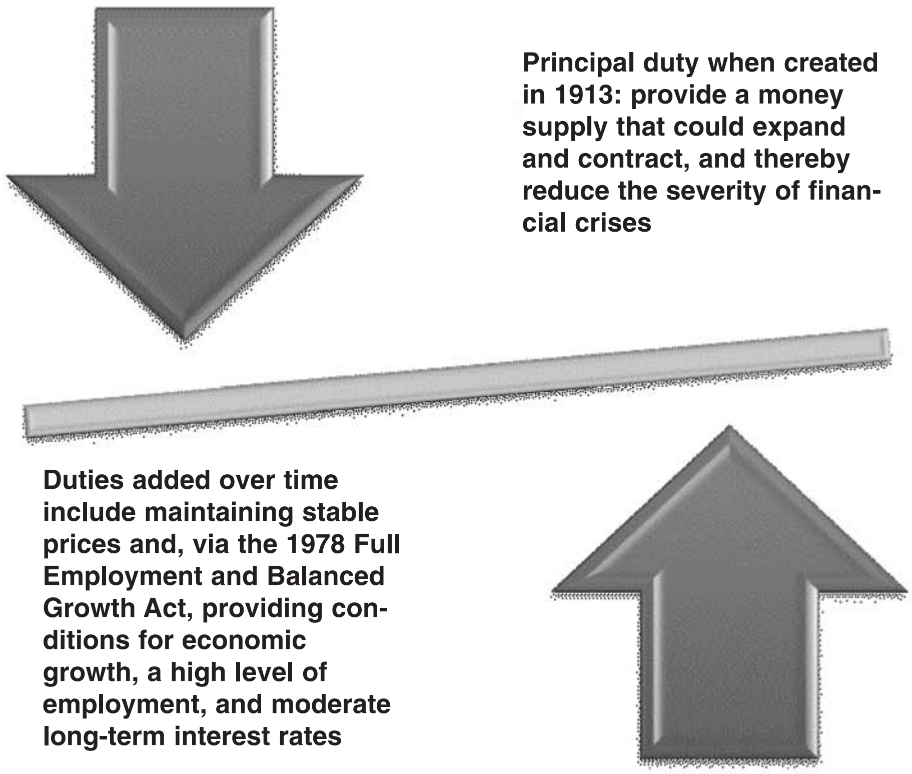
Question: The Fed's Balance Sheet (in billions of dollars)

What is the significance of these data? Be sure to respond to Ben Bernanke's comment from a speech before the Economic Club of Washington D.C., on December 7, 2009, when he described the growth in the Federal Reserve's assets as follows: "…from less than $900 billion before the crisis began to about $2.2 trillion today." Use the back of the sheet, if necessary.

EXTENSION VISUAL 6
IS THE FED A PUBLIC OR PRIVATE INSTITUTION?

Public	Private
Established by Congress with the signing of the Federal Reserve Act by President Woodrow Wilson in 1913.	The Federal Reserve System is privately owned by member banks.
The Board of Governors (Federal Reserve Board) is a federal government agency.	The 12 Reserve Banks are nonprofit.
Any income in excess of expenses and obligations is returned to the taxpayers. In 2008, the Fed returned \$34.9 billion of its income to the taxpayers. In 2009, the Fed paid a record \$46.1 billion in earnings to the Treasury.	Reserve Banks and the Board of Governors are subject to an audit by the GAO (General Accounting Office) but transactions with foreign central banks and open market operations are excluded from the GAO's audit.
There is a system of checks and balances within the Fed in that the public Board of Governors has oversight of the private Reserve Banks.	The private Reserve Banks are subject to regulation by the public Board of Governors.
The chairman of the Fed and members of the Board of Governors (Federal Reserve Board) are nominated by the President and subject to Senate approval. They receive limited 14-year terms with the Chairman reappointed for four-year terms (subject to Senate approval).	Each Reserve Bank has its own board of directors chosen from outside the bank by law.
Taxpayers pay the salary of the chairman and members of the Board of Governors. The monetary policymaking body of the Fed, the Federal Open Market Committee (FOMC), is composed of 12 members, seven from the public side (the Board of Governors, which includes the chairman of the Fed).	Reserve Banks pay the salary of the bank presidents, subject to approval by the Board of Directors. The monetary policymaking body of the Fed, the FOMC, is composed of 12 members. Five are from the private side: the president of the Federal Reserve Bank of New York and four of the remaining 11 Reserve Bank presidents, who serve one-year terms on a rotating basis.

EXTENSION VISUAL 7
BALANCING THE RESPONSIBILITIES OF THE FED



"Our objective has not been to support specific financial institutions or markets for their own sake. Rather, recognizing that a healthy economy requires well-functioning financial markets, we have moved always with the single aim of promoting economic recovery and economic opportunity. In that respect, our means and goals have been fully consistent with the traditional functions of a central bank and with the mandate given to the Federal Reserve by the Congress to promote price stability and maximum employment." Fed Chairman Ben Bernanke at the Economic Club of Washington D.C., December 7, 2009.