**The Federal Reserve**

“Gatekeeper of the U.S. Economy”

The Central Bank of the United States

What three things does the Fed do?

1.

2.

3.

How does it does these things?

1.

2.

Why does it does these things?

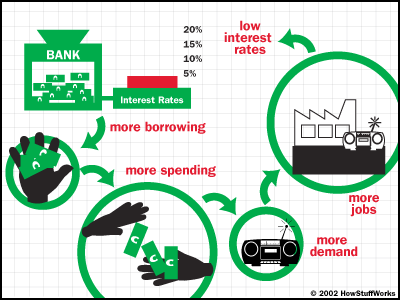
1.

2.

3.

Directions: Go to <http://money.howstuffworks.com/fed.htm> to answer the following questions.

1. Why is inflation NOT good for our economy?
   1. It slows down \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_.
2. How does it do this?
   1. Things cost more so people \_\_\_\_\_\_\_\_\_\_\_\_\_ less.
   2. People do less \_\_\_\_\_\_\_\_\_\_\_\_\_-\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_planning in things like \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and investing. They are afraid to spend money because of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
   3. People borrow less because of the additional costs to long-term \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
3. Inflation summarized:
   1. Demand is \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and supply of goods \_\_\_\_\_\_\_\_\_\_\_\_\_.
   2. Production \_\_\_\_\_\_\_\_\_\_\_\_\_\_ and unemployment \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
   3. Which leads to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
4. What can the Fed do when a recession hits?
   1. A. \_\_\_\_\_\_\_\_\_\_ interest rates.
   2. Encourage people to \_\_\_\_\_\_\_\_\_\_\_\_\_\_ money and make \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
5. Why does the Fed need to be careful when lowering interest rates?
   1. So \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ isn’t impact in the \_\_\_\_\_\_\_\_\_\_\_\_\_\_ run.
6. Name the 2 Fed divisions and what they are responsible for.
   1. \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      1. Set monetary \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      2. Manage \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ money
   2. 12 \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      1. Carry out \_\_\_\_\_\_\_\_\_\_\_\_\_\_ of the Board
      2. Supervise \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_
7. What are the Fed’s 2 primary goals in managing money?
   1. Maintain \_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_
   2. Maximum \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_
8. What does raising and lower the interest rates influence?



1. Complete the following paragraph:
   1. When interest rates go DOWN, people spend \_\_\_\_\_\_\_\_\_\_\_\_ because purchasing becomes less expensive. This spending \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ growth in the economy, but if it happens too \_\_\_\_\_\_\_\_\_\_\_\_\_ demand will \_\_\_\_\_\_\_\_\_\_\_\_\_ too fast and supply cannot keep up. Prices then \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ too quickly which leads to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
2. How is the Fed the “banker’s bank”?
   1. Processes and clears a \_\_\_\_\_\_\_\_\_\_\_\_ of all checks which is approximately 20 \_\_\_\_\_\_\_\_\_\_\_\_\_\_ checks per year.
3. How is the Fed the “government’s bank”?
   1. Maintains the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
4. What bureaus produce coin and paper currency?
   1. Bureau of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
   2. Bureau of \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
5. Which 3 ways does the Fed influence the amount of money in circulation and explain each?
   1. Reserve \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      1. Banks are required to set aside \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ usually 3 to \_\_\_\_\_\_\_\_ percent of their deposits.
   2. Discount \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      1. The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ paid by banks to borrow from a reserve bank.
   3. Open \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      1. Buying and Selling \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
      2. The SELL to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the money supply which in turn \_\_\_\_\_\_\_\_\_\_\_\_\_interest rates.
      3. They BUY to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ the money supply which in turn \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ interest rates.
6. Why is the Fed called a “decentralized, central” bank?
   1. It is structured to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ government control, but remains accountable to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
   2. Board is the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ side.
   3. Reserve banks are the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ side.
7. In examining monetary policy, the FOMC (Federal \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_) examines which economic indicators (name the 1st 5)?

Based upon what you have learned from this website, what state (recession, inflation, depression, expansion) is our economy in currently and why do you believe this?

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