

# **The Federal Reserve**

“ The Gatekeeper of the US Economy”

“The Central Bank of the US”

Personal Finance

Introduction:

What three things does the Fed do?

- 1.
- 2.
- 3.

How does it do these things?

- 1.
- 2.

Why does it do these things?

- 1.
- 2.
- 3.

Directions: Go to <http://money.howstuffworks.com/fed.htm> to answer the following questions. You may also use this site to complete your video worksheet from today.

1. *Why is inflation NOT good for our economy?*

It slows down \_\_\_\_\_

2. *How does it do this?*

- a. Things cost more so people \_\_\_\_\_ less.
- b. People do less \_\_\_\_\_ - \_\_\_\_\_ planning in things like \_\_\_\_\_ and investing. They are afraid to spend money because of \_\_\_\_\_
- c. People borrow less because of the additional costs to long-term \_\_\_\_\_

3. *Inflation summarized:*

Demand is \_\_\_\_\_ and supply of goods \_\_\_\_\_.

Production \_\_\_\_\_ and unemployment \_\_\_\_\_;

Which leads to \_\_\_\_\_.

4. *What can the Fed do when recession hits?*

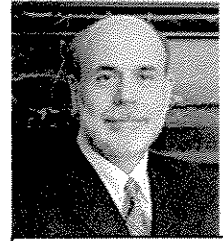
- a. \_\_\_\_\_ interest rates
- b. Encourage people to \_\_\_\_\_ money and make \_\_\_\_\_.

5. *Why does the Fed need to be careful when lowering interest rates?*

So \_\_\_\_\_ isn't impacted in the \_\_\_\_\_ run.

6. Name the two Fed divisions and what they are responsible for.

- a. \_\_\_\_\_
  - i. set monetary \_\_\_\_\_
  - ii. manage \_\_\_\_\_ money
- b. 12 \_\_\_\_\_
  - i. carry out \_\_\_\_\_ of the Board
  - ii. supervise \_\_\_\_\_



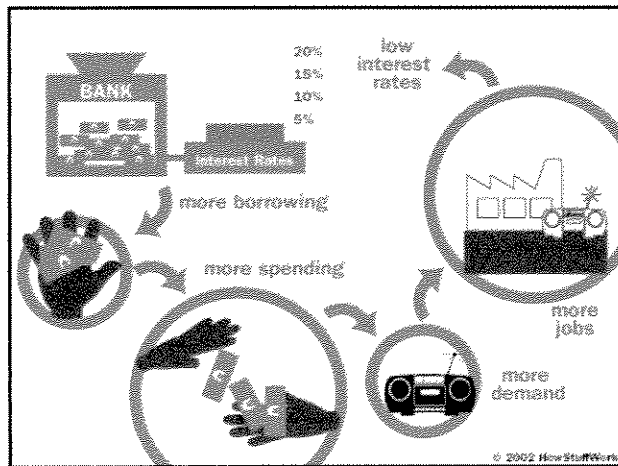
Ben Bernanke – Chairman of the Board of Governors

7. What are the Fed's two primary goals in managing money?

- a. maintain \_\_\_\_\_
- b. maximum \_\_\_\_\_ and \_\_\_\_\_

8. What does raising and lowering the interest rates influence?

\_\_\_\_\_



9. Complete the following paragraph:

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 \_\_\_\_\_.

10. How is the Fed the “banker’s bank”?

Processes and clears a \_\_\_\_\_ of all checks which is approximately 20 \_\_\_\_\_ checks per year.

11. How is the Fed the “government’s bank”?

Maintains the \_\_\_\_\_

12. What bureau’s produce coin and paper currency?

Bureau of \_\_\_\_\_  
 Bureau of \_\_\_\_\_

13. Which three ways does the Fed influence the amount of money in circulation and explain each?

- a. Reserve \_\_\_\_\_
  - i. Banks required to set aside \_\_\_\_\_ usually 3 to \_\_\_\_\_ percent of their deposits
- b. Discount \_\_\_\_\_
  - i. The \_\_\_\_\_ paid by banks to borrow from a reserve bank.
- c. Open \_\_\_\_\_
  - i. Buying and Selling \_\_\_\_\_
  - ii. They SELL to \_\_\_\_\_ the money supply which in turn \_\_\_\_\_ interest rates.
  - iii. They BUY to \_\_\_\_\_ the money supply which in turn \_\_\_\_\_ interest rates.

14. Why is the Fed called "a decentralized, central" bank?

- a. It is structured to \_\_\_\_\_ government control, but remains accountable to \_\_\_\_\_ and the \_\_\_\_\_.
- b. Board is the \_\_\_\_\_ side.
- c. Reserve banks are the \_\_\_\_\_ side.

15. In examining monetary policy, the FOMC (Federal \_\_\_\_\_ ) examines which economic indicators (name the first five)?

- a.
- b.
- c.
- d.
- e.

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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