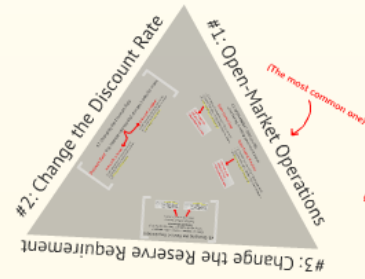


U.S. Government Contractors

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Three "Tools" of Monetary Policy

How it does Monetary Policy:

Monetary Policy:
 - The Fed's attempts to encourage a healthy economy
 - Promote employment, control inflation, etc.
 - Completely based on making it easier or harder for banks, businesses, & citizens to get money



THE FEDERAL RESERVE

Also known as... "THE FED"



What it does:

4 Functions:

- 1) Monetary Policy
 - Maintaining a healthy economy
 - Move on that later...
- 2) Supervising & Regulating US Banks
 - Make sure banks are behaving themselves
- 3) Provide Special Financial Services
 - Check-clearing
 - Help bank-business @ the Fed
 - Release paper currency into the economy
- 4) Give Emergency Financial Support
 - under all kind event
 - Respond to & repair financial catastrophes

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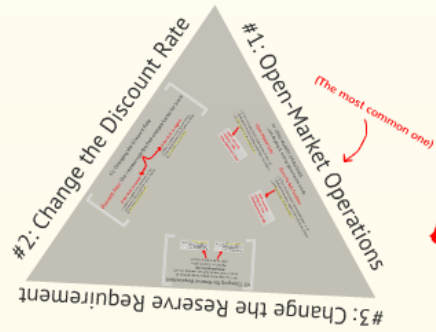
Part 3

Part 1

Part 2

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 - Hold bank reserves @ the Fed
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 - 4) Give Emergency Financial Support
 - Lender of last resort
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Part 3

Part 1

Part 2

What it is:

The Federal Reserve System:

- The central bank of the United States.

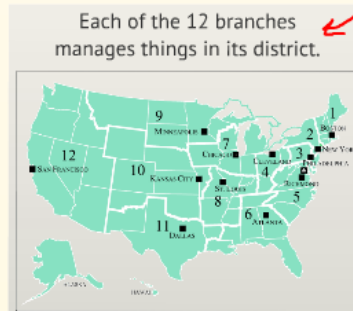
(textbook definition...)

• Created in 1913
• 3rd Central Bank in US history
• Uses "Monetary Policy" to control our money, supervise banks, maintain the stability of the financial system and provide special financial services to banks and the U.S. government.

- It's like a bank's bank with some other fancy jobs to do.

- It's run by the "Board of Governors."

- It's spread out across the country.



- Your bank puts money in the Fed.
- Works closely with the government to keep the economy stable & healthy

4 Functions:

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2008 financial meltdown

Monetary Policy:

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Changing the Reserve Requirement

Banks are required to keep a certain amount of money in their vaults (and they lend out the rest)

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The Fed can force banks to keep more or less in reserve



Reserve Requirement ↑

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1) Banks must hold back more money

Reserve Requirement ↓

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1) Banks must hold back less money

Reserve Requirement

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- 1) Banks must hold back more money
- 2) Less can be loaned out; fewer loans to citizens
- 3) **Less money in the economy!**





Reserve Requirement

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- 1) Banks must hold back less money
- 2) More can be loaned out; more loans to citizens
- 3) **More money in the economy!**

If everything works perfectly, the economy will have high employment, low inflation, and strong banks & businesses!

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