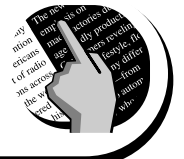


## Section 1: Guided Reading and Review

# The Federal Reserve System



### A. As You Read

As you read Section 1, supply the requested information.

1. Sources of confusion and problems with American banking between 1836 and 1907:  
\_\_\_\_\_  
\_\_\_\_\_
2. Why the Federal Reserve System was unable to hold off the Great Depression: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
3. How the chair of the Federal Reserve's Board of Governors is appointed: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
4. The function of each Federal Reserve Bank: \_\_\_\_\_  
\_\_\_\_\_
5. The makeup of each Federal Reserve Bank's board of directors: \_\_\_\_\_  
\_\_\_\_\_
6. Which banks join the Federal Reserve System and why they join: \_\_\_\_\_  
\_\_\_\_\_
7. The main function of the Federal Reserve's Federal Advisory Council: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_
8. Areas affected by announcements from the Federal Open Market Committee: \_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

### B. Reviewing Key Terms

Define the following terms.

9. monetary policy \_\_\_\_\_  
\_\_\_\_\_
10. Federal Reserve Districts \_\_\_\_\_  
\_\_\_\_\_
11. Federal Advisory Council \_\_\_\_\_  
\_\_\_\_\_
12. Federal Open Market Committee \_\_\_\_\_  
\_\_\_\_\_



## Section 3: Guided Reading and Review

# Monetary Policy Tools



### A. As You Read

As you read Section 3, answer the following questions.

1. If you deposit \$1,000 of borrowed money in a bank checking account, by how much do you increase the money supply? \_\_\_\_\_
2. Why does the Federal Reserve establish a required reserve ratio? \_\_\_\_\_  
\_\_\_\_\_
3. What three tools could the Federal Reserve use to adjust the money supply? \_\_\_\_\_  
\_\_\_\_\_
4. What two effects, leading to an increased money supply, could a reduced RRR have? \_\_\_\_\_  
\_\_\_\_\_
5. Why does the Fed seldom, if ever, change bank reserve requirements? \_\_\_\_\_  
\_\_\_\_\_
6. How do banks respond to a lowered discount rate? \_\_\_\_\_  
\_\_\_\_\_
7. How does a raised discount rate affect bank loans and the money supply? \_\_\_\_\_  
\_\_\_\_\_
8. What effect does the Fed's purchase of government bonds have on the money supply? \_\_\_\_\_  
\_\_\_\_\_
9. How does the Fed's sale of bonds reduce the money supply? \_\_\_\_\_  
\_\_\_\_\_
10. Which of its monetary policy tools does the Federal Reserve use most often? \_\_\_\_\_  
\_\_\_\_\_

### B. Reviewing Key Terms

Rewrite each statement below as needed to make it correct.

11. *Money creation* is the process by which money is manufactured. \_\_\_\_\_  
\_\_\_\_\_
12. The *required reserve ratio* is the ratio of reserves to loans required of banks by the Federal Reserve. \_\_\_\_\_  
\_\_\_\_\_
13. The size of loans created with each demand deposit is measured by the *money multiplier formula*. \_\_\_\_\_  
\_\_\_\_\_
14. *Open market operations* refers to the buying and selling of banks by the Federal Reserve. \_\_\_\_\_  
\_\_\_\_\_



## Section 4: Guided Reading and Review

# Monetary Policy and Macroeconomic Stabilization

### A. As You Read

As you read Section 4, complete the following sentences.

1. The cost of borrowing or having money is the \_\_\_\_\_.
2. If the money supply is high, interest rates will be \_\_\_\_\_.
3. Lower interest rates give firms more opportunities for \_\_\_\_\_.
4. The Fed may follow an easy money policy when the macroeconomy is experiencing a \_\_\_\_\_.
5. The Fed may follow a tight money policy when the macroeconomy is experiencing a \_\_\_\_\_.
6. The goal of stabilization policy is to smooth out fluctuations in the \_\_\_\_\_.
7. If expansionary policies take effect while the macroeconomy is already expanding, the result could be higher \_\_\_\_\_.
8. One reason for inside lags is that it takes time to \_\_\_\_\_.
9. A second reason for inside lags is that it can take additional time to \_\_\_\_\_.
10. Monetary policy can be put in place almost immediately by the \_\_\_\_\_.
11. The outside lag can be relatively short for \_\_\_\_\_ policy.
12. Outside lags for monetary policy can be lengthy because they primarily affect \_\_\_\_\_.
13. We rely more on the Fed to combat the business cycle because fiscal policy is often delayed by \_\_\_\_\_.
14. Economists who usually recommend enacting fiscal and monetary policies believe that economies \_\_\_\_\_.

### B. Reviewing Key Terms

Define the following terms.

15. monetarism \_\_\_\_\_  
\_\_\_\_\_
16. easy money policy \_\_\_\_\_  
\_\_\_\_\_
17. tight money policy \_\_\_\_\_  
\_\_\_\_\_
18. inside lag \_\_\_\_\_  
\_\_\_\_\_
19. outside lag \_\_\_\_\_  
\_\_\_\_\_