**Tools of Monetary Policy – Terms to Know**

Monetary Policy: The actions of a Central Bank (Federal Reserve) are to influence \_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_ of money and to achieve \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

Tools that the Fed has in its toolbox to influence money supply/interest rates:

1. **Discount Rate**: The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_ charged by the Fed to banks for \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ obtained from the Federal Reserve Bank.
2. **Open-Market Operations**: The \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ and \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ of government securities (bonds) through primary dealers by the Fed in order to influence the \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.
3. **Reserve Requirement**: Percentage of checkable deposits that Banks are required to hold in \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, either in their bank vaults or \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_at the Federal Reserve Bank.
4. **Interest on Reserves**: Interest paid by \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ to \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ on required and excess reserves deposited at Federal Reserve banks.

**Expansionary Monetary Policy**

1. When is it used (What is the problem/concern)?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

How could each monetary policy tool be used to expand the economy?

* Open Market Operations:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Discount Rate:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Reserve Requirement:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. When expansionary monetary policy is used, the Money Supply will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_,Interest Rates will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and Aggregate Demand will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

3. When Expansionary Monetary Policy is used, GDP will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

**Contractionary Monetary Policy**

1. When is it used (What is the problem/concern)?\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

How could each monetary policy tool be used to contract the economy?

* Open Market Operations:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Discount Rate: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
* Reserve Requirement:\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

2. When Contractionary Monetary policy is used, the Money Supply will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_,Interest Rates will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_, and Aggregate Demand will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.

3. When Contractionary Monetary Policy is used, GDP will \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_.