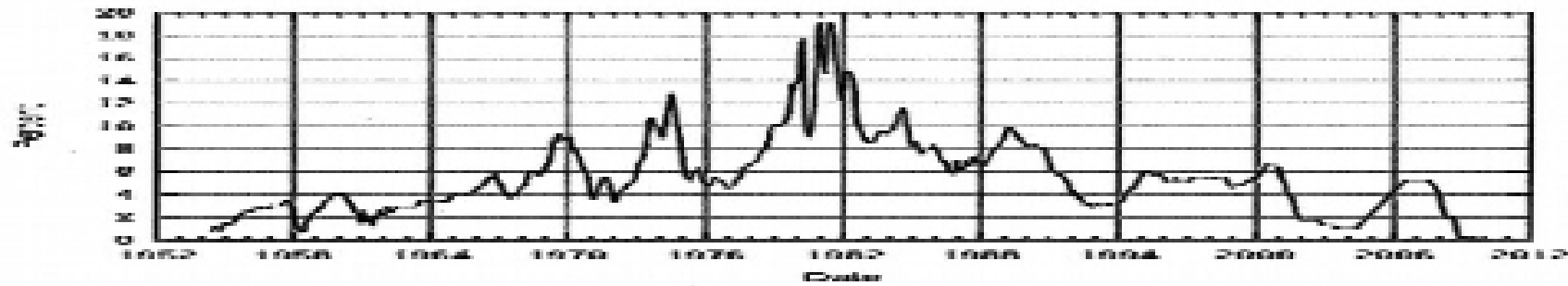


Chapter 12 – Monetary Policy

Monetary Policy – Before and After the Crisis

FFR - History



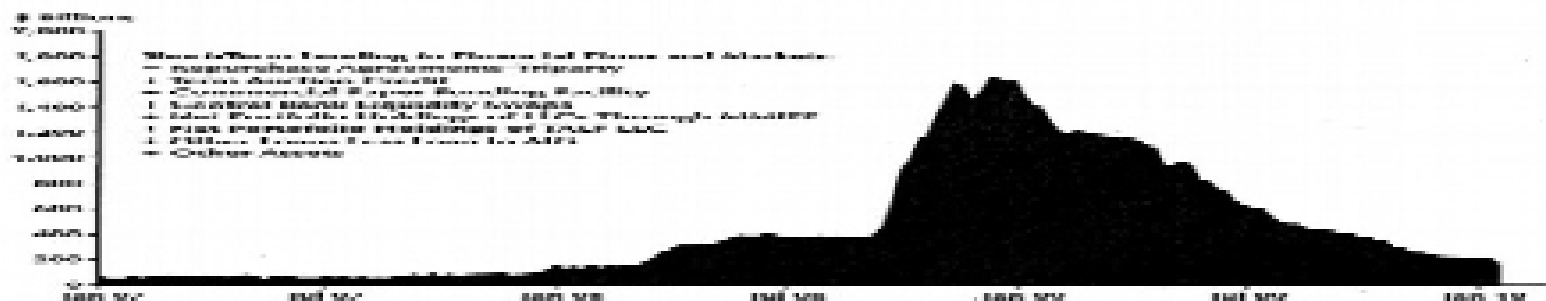
The Fed usually influences AD by setting a target for interest rates.. The interest rate that they influence is called the FFR – Federal Funds Rate.. Although, it's actually the rate that _____ charge _____.

Some people blamed the low interest rates on the housing bubble that caused the recession of 08/09

Three Key points of Monetary Policy during Financial crisis.

- I. FFR Target – current rate is 0-.25 and has been this way since 01/09
- II. Lender of last resort

Programs of Short-Term Lending to Financial Firms and Markets



III. Quantitative Easing

Quantitative Easing – began first in Japan when their interest rates were almost zero. However, During the peak of the financial crisis in 2008, the Federal Reserve expanded its balance sheet dramatically by adding new assets and new liabilities without "sterilizing" these by corresponding subtractions. QE, QE2, QE3, QE infinity?...

Since short-term interest rates were already _____, Fed began targeting _____ and indirectly influenceing _____.

In the long-run the interest rate is determined in the market for _____.

In the short-run the interest rate is determined in the market for _____.

Money Market \$\$\$

- Money demand reflects how much wealth people want to hold in _____ form.
- For simplicity, suppose household wealth includes only two assets:
 - Money – liquid but pays _____.
 - Bonds – pay interest but not _____.

People hold money for three reasons..

1. Transactions Demand: The amount of money people hold to _____ . The main determinant of Transactions demand is _____.
2. Precautionary demand: The amount of money people hold to make _____.
3. Asset Demand- The amount of money that people hold to serve as a _____.

The main determinant of both precautionary demand and asset demand is _____.

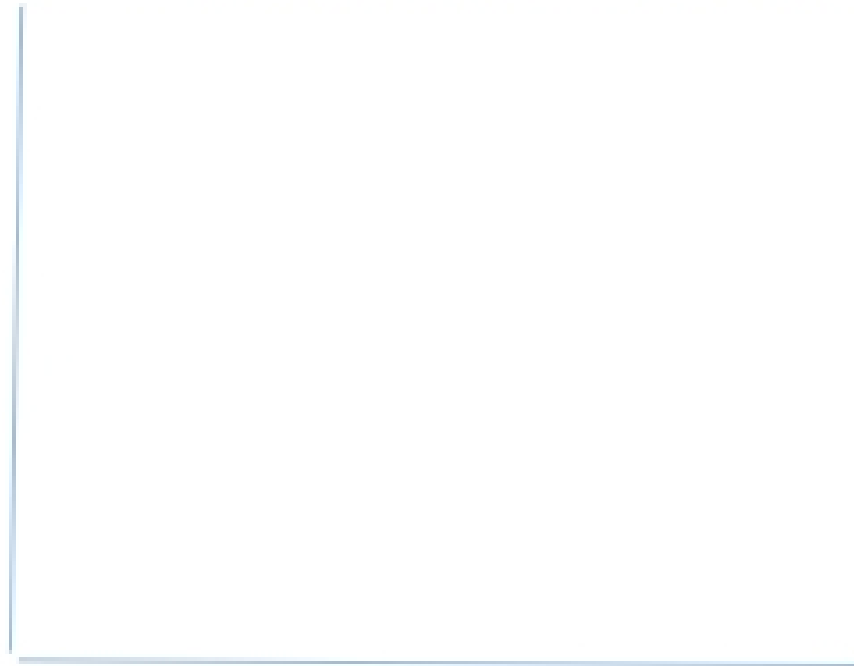
The money demand curve shows the relationship between the quantity of money demanded and the interest rate

As r falls the _____ of holding money falls so people hold _____ money.

An increase in _____ or _____ would shift MD to the right, while a fall in _____ or _____ would shift the curve to the left.

Equilibrium in the Money Market

The Supply of money is determined by _____. The primary way that the Fed can change the money supply is through _____: the _____ and _____ of government securities.



r- will adjust until _____ = _____.

Expansionary Monetary Policy – If $Y < Y_n$ the Fed wants to _____ AD.

Monetary Policy works two ways..

- I. Indirect Effect - Change the money supply to change the interest rate.

If they want to increase AD, then they should try to _____ the interest rates. They can do this by _____ the money supply.. This can be done by _____ bonds from individuals or banks. The Fed would Pay for the bonds, and this would eventually _____ the reserves in the banking system. As a result of more reserves, the banks will make _____ loans which will _____ the MS.