key learning objectives:

chap. 12: how do **private financial institutions** (e.g. commercial banks) create money

chap. 13: how do **public financial institutions** (i.e. Federal Reserve Banks) control the money creation process?

\[ MB = \text{monetary base} = \text{checkable currency} \]

1. Fed Funds rate
2. 2.2.
3. MB
The Federal Reserve System

- The Federal Reserve System serves as the central bank for the United States.

- A central bank is a bank’s bank and a public authority that regulates a nation’s financial institutions and markets.
Board of Governors of the Federal Reserve System

The Federal Reserve, the central bank of the United States, was founded by Congress in 1913 to provide the nation with a safer, more flexible, and more stable monetary and financial system.

Today the Federal Reserve's duties fall into four general areas: (1) conducting the nation's monetary policy; (2) supervising and regulating banking institutions and protecting the credit rights of consumers; (3) maintaining the stability of the financial system; and (4) providing certain financial services to the U.S. government, the public, financial institutions, and foreign official institutions.
The Federal Reserve Board

Monetary Policy

Monetary policy is made by the Federal Open Market Committee, which consists of the Board of Governors of the Federal Reserve System and the Reserve Bank presidents.

- Policymaking
  - Federal Open Market Committee

- Policy tools
  - Open market operations
  - The discount rate
  - Reserve requirements

- Reports
  - Monetary Policy Report to the Congress
  - Semiannual review by the Board
  - Beige Book
  - Informal survey by the Federal Reserve Banks of current economic conditions in their Districts

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Last update: January 15, 2003

10/22/2003 11:29 AM
### 2003 Members of the FOMC

**Members**

- **Alan Greenspan**, Board of Governors, Chairman
- **William J. McDonough**, New York, Vice Chairman

- **Ben S. Bernanke**, Board of Governors
- **Susan Schmidt Bies**, Board of Governors

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### 2003 Calendar

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**Meeting**

**Press Release**
Federal Reserve Release

Press Release

Release Date: September 16, 2003

For immediate release

The Federal Open Market Committee decided today to keep its target for the federal funds rate at 1 percent.

The Committee continues to believe that an accommodative stance of monetary policy, coupled with robust underlying growth in productivity, is providing important ongoing support to economic activity. The evidence accumulated over the intermeeting period confirms that spending is firming, although the labor market has been weakening. Business pricing power and increases in core consumer prices remain muted.

The Committee perceives that the upside and downside risks to the attainment of sustainable growth for the next few quarters are roughly equal. In contrast, the probability, though minor, of an unwelcome fall in inflation exceeds that of a rise in inflation from its already low level. The Committee judges that, on balance, the risk of inflation becoming undesirably low remains the predominant concern for the foreseeable future. In these circumstances, the Committee believes that policy accommodation can be maintained for a considerable period.

Voting for the FOMC monetary policy action were: Alan Greenspan, Chairman; Ben S. Bernanke; Susan S. Bies; J. Alfred Broaddus, Jr.; Roger W. Ferguson, Jr.; Edward M. Gramlich; Jack Guynn; Donald L. Kohn; Michael H. Moskow; Mark W. Olson; Robert T. Parry; and Jamie B. Stewart, Jr.

2003 Monetary policy

Home | News and events | Accessibility | Last update: September 16, 2003
www.economagic.com

Economagic.com: Economic Time Series Page

Federal funds rate

- Check to search the 9,000 Producer Price Index series also
- Check to search the 50,000 Local Employment series also
- Check to search the 24,000 US Labor Force series also

Find Series

Search Request: Federal funds rate

Matches:

1. Effective Federal Funds Rate, Weekly, Averages of Daily Figures Percent/TT
2. Federal Funds Rate/ffunds

Want state and city building permits data? Click here for California and then find your own.
Series Title: Federal Funds Rate

If you wish, you can change the options for this chart.

This series starts in 1954 and ends in 2002.

Starting year/month/day: 1990 1
Ending year/month/day: 2002 12

Show recessions: Do not show recessions
Show end: Do not show end
The Federal Reserve System

- Monetary policy is conducted by the Fed.

- Monetary policy is the adjustment of the quantity of money in circulation to achieve specific economic goals.
The Federal Reserve System

• These goals include:

1) Keeping inflation in check

2) Maintaining full employment

3) Moderating the business cycle

4) Contributing toward achieving long-term growth

Stable exchange rates
Low interest rates
The Structure of the Fed

- BOG
- Regional Banks
- FOMC
- Open Market

Notes:
- Read: FOMC, Minutes, Testimony, Humphrey-Hawkins
- TM 14-27
Causel chain

$$\frac{\Delta GDP}{\Delta I} \times \frac{\Delta I}{\Delta c} \times \frac{\Delta c}{\Delta n} \times \frac{\Delta n}{\Delta r}$$

how many links: 6

Forc

Open Market Operations

$$\Delta R < 0$$

○ Fed Sells Govt. Securities

$$\Delta R > 0$$

○ Fed Buys Govt. Securities
Chap. 13

"Financial markets"

- Bonds
- Stocks
- Deposits

$M_1, M_2$ etc.

Questions:
- What determines $M_S$?
- What determines $M_D$?

Supply of deposits

Demand for deposits

$M$: supply of deposits

$D$: demand for deposits

Equilibrium $e$: $M = D$
Deposit Creation  ← Chap. 12

- assumption
- willing leaders (banks)
- willing borrowers (the public)

therefore: excess reserves ≡ 0

- a verifiable assumption

this lecture

- formula:

\[ \Delta N = \frac{1}{2.2} \Delta MB \]

2.2: reserve ratio

\[ \Delta MB: \text{change in monetary base} \]

\[ \Delta MB = \Delta \text{Currency} + \Delta \text{Reserves} \]
Note the correlation.

- Monetary Growth -

MONETARY BASE* (yearly percent change)

* Adjusted for changes in reserve requirements Federal Reserve data.

P = Business cycle peak.