Lectures 27 will cover the following transparencies and Figures 1 - 3 of chapter 17 of the textbook.
Discount Loans

Full Model

\[ M = m \times (MB_n + DL) \]

Advantages

1. Lender of Last Resort Role
   a. To prevent banking panics
      
      \textit{FDIC fund not big enough}

      \textbf{Examples:} Continental Illinois and Franklin National

   b. To prevent nonblank financial panics
      
      \textbf{Examples:} 1987 stock market crash
Discount Loans

Disadvantages

1. Confusion interpreting discount rate changes

2. Fluctuations in discount loans cause unintended fluctuations in money supply

3. Not fully controlled by Fed
The Market for Reserves and the Fed Funds Rate

Demand Curve for Reserves
1. \( R = RR + ER \)
2. \( i \downarrow, \) opportunity cost of \( ER \downarrow, \)
   \( ER \uparrow \)
3. Demand curve slopes down

Supply Curve for Reserves
1. \( i \uparrow, \) discount loans \( \uparrow, \) quantity of Reserves supplied \( \uparrow \)
2. Supply curve slopes up

Market Equilibrium
\( R^d = R^s \) at \( i^*_{ff} \)
Advantages of Open Market Operations

1. Fed has complete control
2. Flexible and precise
3. Easily reversed
4. Implemented quickly
Reserve Requirements

Advantages

1. Powerful effect

Disadvantages

1. Small changes have very large effect on $M^s$
2. Raising causes liquidity problems for banks
3. Frequent changes cause uncertainty for banks
4. Tax on banks
Goals of Monetary Policy

Goals

1. High Employment

2. Economic Growth

3. Price Stability

4. Interest Rate Stability

5. Financial Market Stability

6. Foreign Exchange Market Stability

Goals often in conflict