

FREE ENTERPRISE ACTIVITY 20

DECISION MAKING AT THE FEDERAL RESERVE BOARD

The Federal Reserve Board uses three major tools to control the nation's money supply and to keep the economy running smoothly: reserve requirements, discount rates, and open market operations.

Directions: Predict which tool the board would use in each situation below and explain how the board would use it.

1. The Federal Reserve Board wants to decrease the money supply by limiting the amount of money that banks have to loan.

2. The Federal Reserve Board wants to increase the money supply by encouraging banks to borrow money from district Federal Reserve Banks.

3. The Federal Reserve Board wants to decrease the money supply by having banks raise their prime rate to discourage borrowers.

4. The Federal Reserve Board wants to increase the money supply by adding "new" money.

5. The Federal Reserve Board wants to "loosen up" the money supply by encouraging banks to lend more of their money.

6. The Federal Reserve Board wants to "tighten" the money supply by removing money from circulation.
