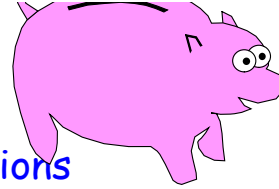


Monetary Policy



the Federal Reserve's actions to change the money supply (the amount of money in the economy)



3 Tools to change the Money Supply:

a) Open Market Operations

the buying and selling of treasury bonds (acts like an IOU)

buying bonds will increase the money supply

selling bonds will decrease the money supply

b) Reserve Requirement

% of deposits a bank must keep on hand at all times

increasing RR decreases money supply

decreasing RR increases money supply

c) Discount Rate

interest rate Fed charges banks for loans

increasing the discount rate will decrease the money supply

decreasing the discount rate will increase the money supply

Increases in the money supply will increase Aggregate Demand

Decreases in the money supply will decrease Aggregate Demand