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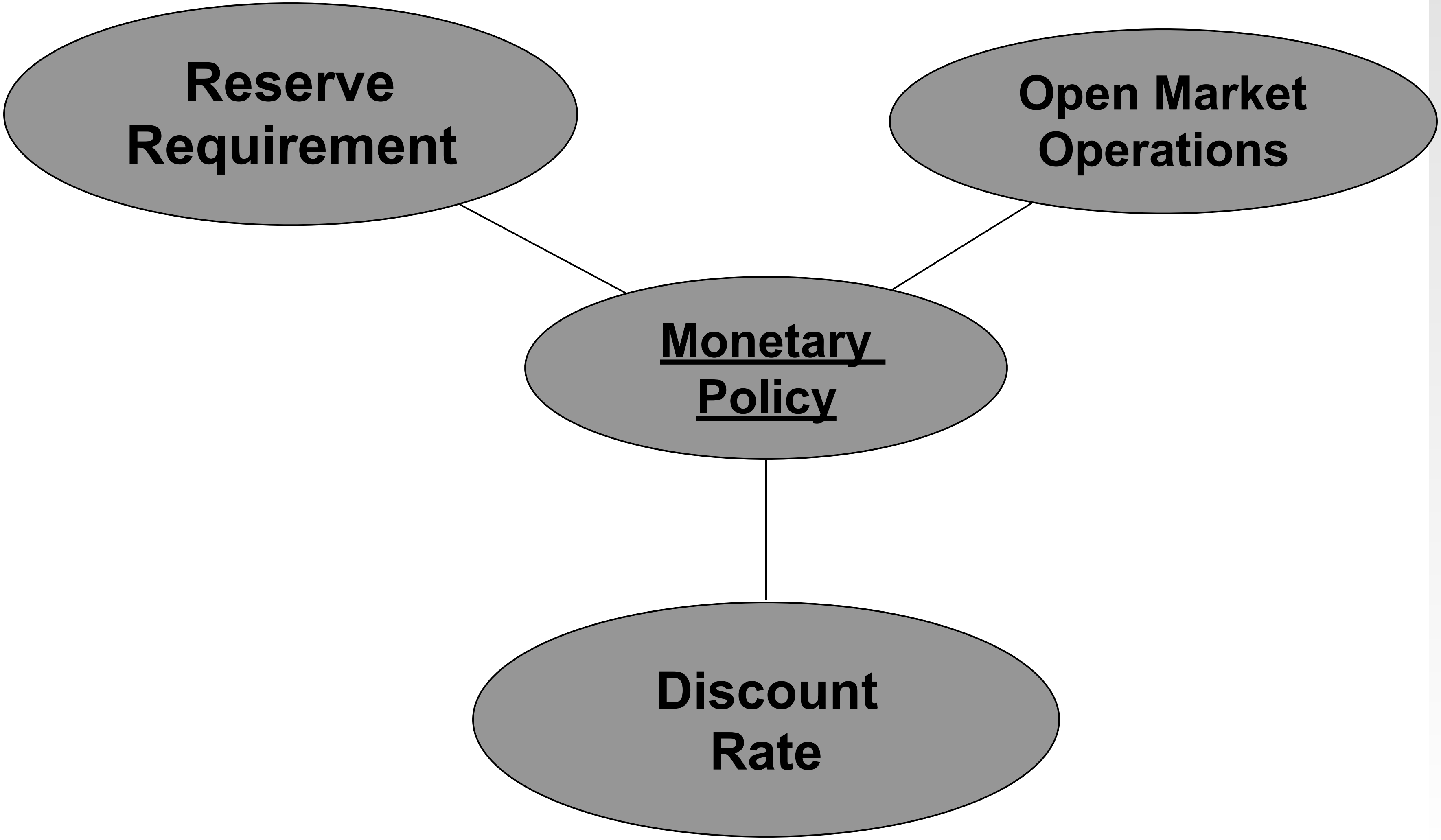
- What 3 things can the Fed do to **increase** the money supply?

- What 3 things can the Fed do to **decrease** the money supply?

Tools of the Fed



Background Vocabulary

- *Credit:* Buying an item on the promise to pay the money back later plus interest charges.

Notes #1

- The Fed uses the tools of monetary policy in order to influence the cost and **availability** of **credit**.

EASY MONEY POLICY

- In economic downturns (contractions, recessions), the Fed needs to stimulate **demand** by expanding the money supply. The Fed uses an **Easy-Money** policy to do this. The goal is reduce **unemployment**.

EASY MONEY POLICY *continued*

- An easy money policy consists of lowering the reserve requirement, buying-back government securities, and lowering the discount rate. (The same actions from yesterday that expand the money supply)

Quick Summary

Monetary Policy Purpose	Easy Money Purpose	Easy Money Strategy
INFLUENCE CREDIT	**REDUCE UNEMPLOYMENT**	**DECREASE $ $ SUPPLY**

TIGHT MONEY POLICY

- When business is booming, there may be some **inflation** and the Fed wants to stabilize prices and reduce inflation by **decreasing** the money supply. The Fed uses a tight-money policy to **limit** the amount of credit available.

TIGHT MONEY POLICY *continued*

- A tight money policy consists of raising the reserve requirement, selling government securities on the open market, and raising the discount rate. (The same actions from yesterday that decrease the money supply.)

Tight Money Strategy	Easy Money Strategy
STOP INFLATION	**DECREASE $$ SUPPLY**