Monetary Policy Terms

1. Discount rate – Interest rate that the Federal Reserve charges on loans to the nation’s financial institutions.
2. Easy money policy – Monetary policy resulting in lower interest rates and greater access to credit; associated with an expansion of the money supply.
3. Federal Reserve System – Privately owned, publicly controlled, central bank of the United States.
4. Federal Open Market committee – Decides the monetary policy; consists of the 7 members of the Board of Governors and 5 presidents of district banks.
5. Liquidity – Potential for being readily convertible into cash or other financial assets.
6. M1 – Money supply components conforming to money’s role as medium of exchange; coins, currency, checks, other demand deposits, traveler’s checks.
7. Open market operations – Monetary policy in the form of U.S. Treasury bills or bond sales and purchases or both.
8. Monetary policy – Actions by the Federal Reserve to expand or contract the money supply in order to affect the cost and availability of credit.
9. Real Interest Rate – The market rate of interest minus the rate of inflation.
10. Reserve requirement – Formula used to compute the amount of a depository institutions required reserves.
11. Time Deposit – Interest-bearing deposit requiring prior notice before a withdrawal can be made, even though the rule may not always be enforced.
12. Tight money policy – Monetary policy resulting in higher interest rates and restricted access to credit; associated with a contraction of the money supply.
13. Monetary Policy – Actions by the Federal Reserve System to expand or contract the money supply in order to affect the cost and availability of credit.
14. What is Fiscal Policy? The use of government spending and taxing to influence the money supply.