

Monetary Policy Vocabulary

Bank Reserves

- The sum of cash that banks hold in either their bank vaults or deposited at the Federal Reserve.

Required Reserves

- (The Reserve Requirement – Tool of the Fed)
- A percentage of all checkable deposits that banks are required by the Federal Reserve to hold in reserve at the Fed or in their Bank Vaults.

Excess Reserves

- The amount of funds held by banks in an account at the Federal Reserve Bank in excess of the required reserves.

Interest

- The price of using someone else's money.

Interest Rate

- The percentage of the amount of a loan that is charged for the loan.

Federal Funds Rate

- The market in which banks can borrow or lend reserves, allowing banks temporarily short of their required reserves to borrow from banks that have excess reserves.

Federal Reserve System

- The Central Bank system of the United States – the government's bank and serves as a bank for commercial banks and state-chartered banks.

Central Bank

- An institution that oversees and regulates the banking system and quantity of money in the economy (The Federal Reserve Bank).