

# GUIDED READING Activity 15-3

For use with textbook pages 412–417

## REGULATING THE MONEY SUPPLY

### FILLING IN THE BLANKS

**Directions** Use your textbook to fill in the blanks using the words in the box. Some words may be used more than once.

discount rate	prime rate	securities
federal funds rate	open-market operations	money supply
economy	Federal Reserve	deposits
reserve requirement	interest rates	loans
Treasury bills	M1	
economy		

#### Introduction/Changing Reserve Requirements

The main goal of the Federal Reserve is to keep the **1** \_\_\_\_\_ growing steadily and the **2** \_\_\_\_\_ running smoothly without inflation. The **3** \_\_\_\_\_ can control the money supply by changing the reserve requirement of financial institutions. The lower the percentage of **4** \_\_\_\_\_ that must be kept in reserve the more dollars available to loan. The Fed may also raise the **5** \_\_\_\_\_ for individual banks.

#### Changing the Discount Rate

If a bank finds itself without enough reserves to meet its reserve requirements, it can make a loan from a **6** \_\_\_\_\_ district bank. The rate of interest the Fed charges its member banks is called the **7** \_\_\_\_\_. If the discount rate is high member banks may pass along the increased costs to its customers in the form of higher **8** \_\_\_\_\_. For example, it might raise its **9** \_\_\_\_\_—the interest rate it charges its best business customers. The interest the Fed changes to regulate monetary policy is the **10** \_\_\_\_\_, or the interest rate that banks charge each other. If the Fed lowers the federal funds rate, banks will borrow more and thus make more **11** \_\_\_\_\_.

#### Open-Market Operations

The Fed buys and sells government securities, called **12** \_\_\_\_\_ in order to control the money supply. The term open market is used because these **13** \_\_\_\_\_ are bought and sold in the open market through dealers who specialize in buying and selling government securities. If the Fed buys **14** \_\_\_\_\_ for example, it pays for them by making a deposit to the reserve account of the security's dealer's bank. This deposit increases the bank's reserves and thus the amount of money it can lend, increasing the **15** \_\_\_\_\_. When the Fed sells securities, the dealer's banks must use its reserves to purchase the **16** \_\_\_\_\_. This leaves less money available for lending, decreasing the money supply.

#### The Difficulties of Monetary Policy

One difficulty in regulating monetary policy is gathering and evaluating information about **17** \_\_\_\_\_ and M2. The Fed has often been criticized for its **18** \_\_\_\_\_.

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