Tell your neighbor what you know about...

Stocks

- Equity
- Biz only

Bonds

- Debt ($21 trn)
- Biz & Gov't

What is the difference between a...

Stock	Bond
Business Ownership	Government
Equity	Businesses (companies)
Buy and sell as needed	Legal obligation to repay
Market	Interest (%)
No legal obligation to repay	Rated (AAA, AA, A)
	Market

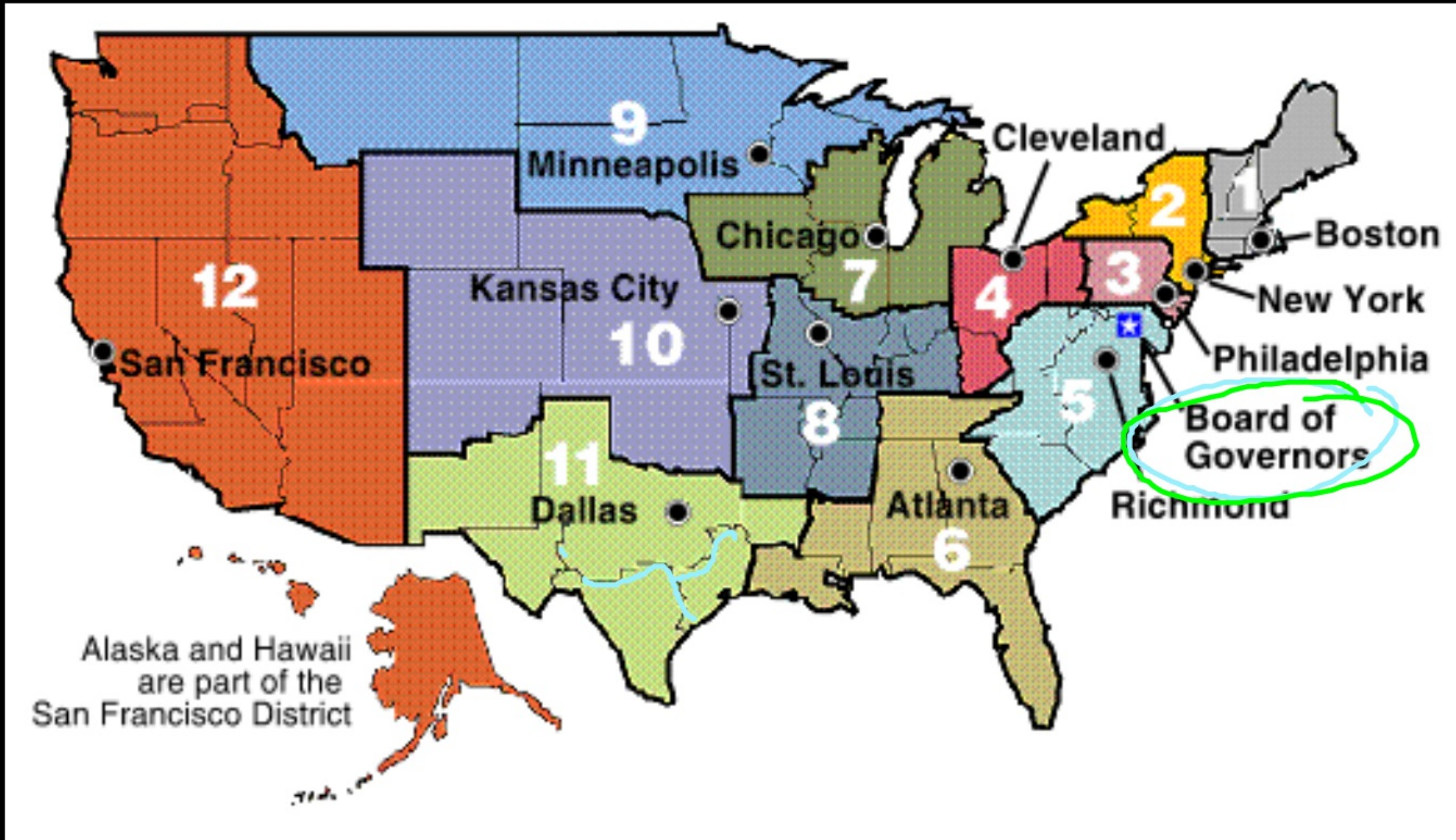
Today's learning objective:

By the end of class, I will be able to suggest Monetary Policy strategies the Federal Reserve can employ to improve economic outcomes (maintain an inflation rate of 2% and sustainably grow GDP)

Today's language objective:

*I will use the following vocabulary terms with my peers.
Federal Reserve
Interest rate (coupon rate)
Treasuries (government bonds)
Open Market Operations; Discount Rate; Reserve Ratio

What is the Federal Reserve?



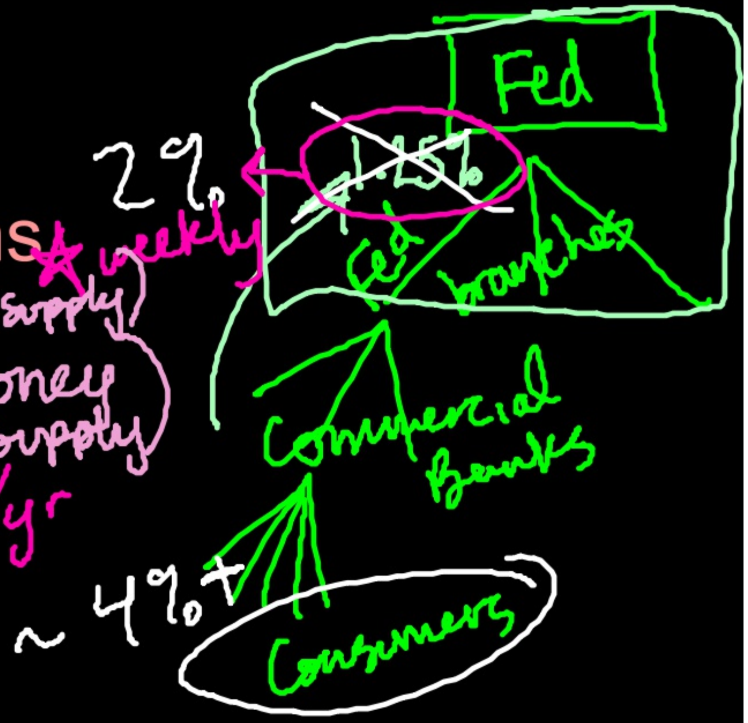
Tools of the Federal Reserve:

Janet Yellen

*Perform open market operations ★ weekly

- Buy bonds (↑ $ supply)
- Sell bonds (↓ money supply)

*Change the discount rate ~10/yr



*Alter the reserve ratio 2x/decade

$4400

~$4800

5%~10%

$440

10% ↓ 5%

Treasuries game

The year is 2015, and inflation is ~0.7%.

You are Janet Yellen, chair of the Federal Reserve.

A: Sell treasuries (government bonds)
B: Buy treasuries (government bonds)

How do you get a job as a leader at the Fed?

- appointed by President
- authority
- Chair serves 4 yr terms
- No limits
- Congress can ask you to testify

The year is 1990, and you are Alan Greenspan, chairman of the Federal Reserve.

Inflation is 6.5%. What should you do?

A: Sell treasuries (government bonds)
B: Buy treasuries (government bonds)

Discount rate

*What is it?

2008

0%

*How does it work?

*What is it now?

2% - 2018

1.25% - 2017

Reserve Ratio

*What is it?

*How does it work?

*What is it now?

Let's separate into groups.

3 tools the Fed (FOMC Federal Open-Mkt Cmt) has at its disposal to improve economic outcomes.

1) Buy or sell government treasuries
2) Reserve ratio ↑ ↓
3) Discount rate ↑ ↓

Inflation in 2008 was 0.1% and unemployment was 9.3%. Ben Bernanke.

Prepare a strategy as the FOMC.

1) Lower discount rate (allow banks to borrow money at a lower interest rate)
2) Buy bonds (puts more money into circulation to increase inflation)
3) Decrease reserve ratio (give banks more flexibility to loan)

Inflation is low. Unemployment is high.

Inflation in 1998 was 1.6% and unemployment was 4.5%. Alan Greenspan.

Prepare a strategy as the FOMC.

Inflation is near 2% :)
Unemployment is naturally at 5% :)

1) Be a net buyer of bonds (low-level)

Inflation close to correct level.
Unemployment close to natural level.

Inflation in 1981 was 11% and unemployment was 9.7%. Paul Volcker.

Prepare a strategy as the FOMC.

1.) Selling bonds (reduces amount of $ in circulation ---> decreases inflation)
2.) Decrease reserve ratio (gives banks flexibility for loanable funds)
3.) Decrease discount rate (lowers interest rates for banks)

Inflation is dangerously high.
Unemployment is dangerously high.
Stagflation.