CONTENTS

PREFACE

ж., . , **Хі**

1	Introduction	1
	Why is the Federal Reserve (the Fed) so important to the country?	1
	When and why was the Fed founded?	1
	How did the Fed evolve?	2
	How in general does the Fed compare with other central banks?	3
. 1	How does a central bank differ from other banks and financial institutions?	6
	How do the Fed's unique policy instruments affect the nation's economy as a whole?	7
	If so crucial to national policy, why is the Fed independent of the government?	8
2	The Fed's Organization for Policy	10
	Where does responsibility for monetary policy decisions reside in the Fed?	10
	What does the FOMC do and how is it organized?	11
	How are other monetary policy instruments controlled?	11

How is the politically appointed Board of Governors chosen?	13
How are Reserve Banks governed?	14
What role do Reserve Banks play in the policy process?	15
Should the regional structure of the Fed be modified for today's world?	16
Should Reserve Bank presidents be politically appointed?	18
Do member banks and directors of Federal Reserve Banks unduly profit or exert influence?	19
What happens to the profits from Fed operations?	22
What is the underlying connection between the government and the Fed?	23
How does the government keep tabs on the Fed?	25
What does it mean in practice to say the Fed is independent?	26
3 Basic Monetary Policy Objectives	28
What are the Fed's basic objectives?	28
How does the Fed take account of it long-run economic goals?	29
What role does the Fed chairman play in focusing the institution's goals?	30
In what sense are the Fed's monetary policy objectives compatible with each other?	31
What does price stability mean?	34
What makes the Fed prefer a little rather than no inflation as its practical goal?	34
What inflation rate seems to satisfy the goal of price stability?	37
Has the Fed specified a target rate of inflation?	38
4 Instruments of Monetary Policy	41
How are the Fed's monetary instruments employed in the policy process?	41

Which of the Fed's instruments are most significant for implementing policy?	43
How are open market operations employed in policy implementation?	45
How does the federal funds rate connect with money market conditions in general?	47
How does the funds rate decision affect other credit markets?	49
How do key borrowers respond to changed market conditions?	50
How do FOMC policy decisions adapt to market uncertainties?	52
How do open market operations avoid creating too much money and inflation?	53
Does the money market itself influence spending or is it mostly a policy conduit?	57
Are the Fed's powers also used to influence the government securities market?	<i>59</i>
of Monetary Policy What is the institutional structure for monetary policy decisions?	64 64
What is the institutional structure for monetary policy decisions?	64
What material is provided to the FOMC for discussion of the economic outlook?	66
What material is provided to help the Committee form its monetary policy decision?	68
How do Committee members conduct their discussion	00
of the economy and monetary policy?	70
of the economy and monetary policy? What, in general, are the main influences on	70
of the economy and monetary policy? What, in general, are the main influences on the Fed's policy decision? How do Committee members frame and communicate	70 72
of the economy and monetary policy? What, in general, are the main influences on the Fed's policy decision? How do Committee members frame and communicate their decision about policy?	70 72 74

-

5

	6	The Fed's Role, Other Domestic Policies, and Conditions Abroad	84
		What policies outside the Fed's control most influence its policy effectiveness?	84
		How do fiscal and monetary policies best fit together?	86
		How are decisions about coordinate roles of fiscal and monetary policies made in practice?	91
		How do regulatory issues relate to monetary policy and its dual economic objectives?	94
		How does the Fed's own regulatory authority fit into the nation's regulatory structure?	97
		How has the Dodd-Frank Act influenced the Fed's regulatory stance?	99
		How might the Fed better integrate monetary and regulatory policies?	103
		How is Fed policy influenced by policies and conditions abroad?	105
·		Will the Fed's ability to make monetary policy decisions on purely domestic grounds be significantly lessened by further integration of world financial markets?	108
	7	The Fed's Two Great Postwar Crises	111
		In what ways are the two great postwar crises similar?	111
	1,	How did the Fed becomes involved in the great inflation's onset?	112
		How did the Fed control inflation and regain credibility?	113
		What again destabilized the economic and financial background for Fed policy?	115
		How did the Fed become involved in the great credit crisis?	116
	1	What actions did the Fed take to help contain the crisis?	119
		How did the Fed contribute to the recovery?	120
		What lessons can be learned from the Fed's management of the two great postwar crises?	122

8	Conclusion	127
	What major challenges face the Fed as an organization in the future?	127
	How well has the Fed served the country?	130
AP	PPENDIX A-1	133
AP	PENDIX A-2	135
(N	DEX	137