Fed Policy Signals

Trace how Federal Reserve decisions influence money, credit, and interest rates.

12.E4c "The Federal Reserve is the government institution responsible for managing the nation's monetary policy, including regulating the amount of money in circulation and interest rates."

NAME ______________________ DATE ______________

1 READ AND MARK

Read it twice

YOUR JOB Underline Fed responsibilities and tools. Mark possible effects on borrowers, businesses, and workers.

How the Fed Influences the Economy

1. The Federal Reserve manages U.S. monetary policy: actions influencing money and credit conditions. Congress established its goals, including maximum employment and stable prices. The Fed makes policy decisions independently within that mandate. Its actions influence borrowing, spending, investment, and inflation. It does not set every interest rate directly or determine federal taxes and spending; those fiscal decisions belong to elected institutions.

2. If inflation stays high, the Fed may raise its target range for the federal funds rate, an overnight rate in the market for bank reserve balances. Under its ample-reserves framework, it steers short-term rates primarily through administered rates, including interest paid on reserve balances. Higher borrowing costs may delay household purchases and business investment. Weaker demand can ease inflation, but may also reduce hiring. Effects take time and are not guaranteed.

3. Securities purchases or sales change banking-system reserves and can influence financial conditions. This does not mean banks automatically lend out each added reserve dollar or that the Fed directly sets all money in circulation. With weak activity and low inflation, easing policy can support spending. With supply disruptions, higher rates cannot directly produce missing goods. Officials must weigh inflation, employment, uncertainty, and effects on different groups.

2 ANSWER WITH EVIDENCE

Use the passage

1. What policy does the Federal Reserve manage, and name two economic conditions its decisions can affect.

2. Why are federal budgeting, tax rates, and government spending not Federal Reserve decisions?

3. If inflation remains high, what action may the Fed take, and what is the intended purpose of that action?

4. How can purchases or sales of government securities help the Fed carry out monetary policy?

3 YOUR TURN

Your own words

Choose one condition: inflation stays high, or the economy is weak while inflation is low. In 3 to 4 sentences, identify one Federal Reserve action from the passage and explain one cause-and-effect chain showing how that action could influence the economy.

PART 1 · READ AND MARK

Underline Fed responsibilities and tools. Mark possible effects on borrowers, businesses, and workers. Accept any marking that follows this job and points at the right text.

PART 2 · ANSWERS

#	QUESTION	ANSWER
1	What policy does the Federal Reserve manage, and name two economic conditions its decisions can affect.	**The Fed manages monetary policy. Its decisions can affect interest rates, credit availability, spending, investment, employment, or inflation.**
2	Why are federal budgeting, tax rates, and government spending not Federal Reserve decisions?	**They are fiscal-policy decisions made through elected government institutions, not monetary-policy decisions made by the Fed.**
3	If inflation remains high, what action may the Fed take, and what is the intended purpose of that action?	**The Fed may raise its target range for the federal funds rate to slow overall spending and reduce inflation pressure.**
4	How can purchases or sales of government securities help the Fed carry out monetary policy?	**Purchases or sales change banking-system reserves and can influence financial conditions. Administered rates primarily steer short-term rates under the ample-reserves framework.**

PART 3 · YOUR TURN (SAMPLE ANSWER)

If inflation remains high, the Fed may raise its target range for the federal funds rate. Higher borrowing costs may cause families to delay financed purchases and firms to postpone investment. Reduced demand can ease price growth.

Accept a plausible causal chain with conditional effects and appropriate trade-offs. Monetary policy differs from fiscal policy. Additional accurate reasoning should not be penalized; no claim that every market rate is directly set by the Fed is required.