NAME ______ CLASS ______ DATE ______

CHAPTER 16

Section 3: Guided Reading and Review

# Monetary Policy Tools

## A. As You Read

As you read Section 3, answer the following questions.

1. If you deposit $1,000 of borrowed money in a bank checking account, by how much do you increase the money supply? ______
2. Why does the Federal Reserve establish a required reserve ratio? ______
3. What three tools could the Federal Reserve use to adjust the money supply? ______
4. What two effects, leading to an increased money supply, could a reduced RRR have? ______
5. Why does the Fed seldom, if ever, change bank reserve requirements? ______
6. How do banks respond to a lowered discount rate? ______
7. How does a raised discount rate affect bank loans and the money supply? ______
8. What effect does the Fed's purchase of government bonds have on the money supply? ______
9. How does the Fed's sale of bonds reduce the money supply? ______
10. Which of its monetary policy tools does the Federal Reserve use most often? ______

## B. Reviewing Key Terms

Rewrite each statement below as needed to make it correct.

11. *Money creation* is the process by which money is manufactured. ______
12. The *required reserve ratio* is the ratio of reserves to loans required of banks by the Federal Reserve. ______
13. The size of loans created with each demand deposit is measured by the *money multiplier formula*. ______
14. *Open market operations* refers to the buying and selling of banks by the Federal Reserve. ______