Name:________________

1. A. How many members make up the Board of Governors of the Federal Reserve System?
   7 members

   B. What is the term length each member serves? When do those terms expire?
   14 years, expire at the end of January of every even-numbered year

2. Why is the Federal Reserve System considered a quasi-public regulatory agency?
   Because regional Federal Reserve banks owned by private member banks of the region

3. What activity is the primary responsibility of the Fed, as opposed to any other government agency?
   Check-clearing
   monetary policy

4. Why is the check collection process the key to how much a single bank can safely lend?
   A bank can lend up to the amount of its excess reserves and no more. If it tries to lend more,
   it will have insufficient reserves to cover its deposits after what it lent out goes to other banks
   and those banks present the checks, those that the lending bank issued to the borrowers, for
   payment.

5. When a bank has deficient reserves, its behavior is more predictable than when it has
   excess reserves. Why?
   Banks with excess reserves may lend more and increase the money supply, but banks with
   deficient reserves must cut back on lending if they cannot get more reserves. It is the
   difference between seeking profit and obeying a legal requirement.

6. Does it make sense for a bank in the United States to borrow from the discount window
   and use those reserves to support business or consumer loans?
   It might appear to make sense, since the Fed’s discount rate is well below consumer and
   business loan rates, and so there is a profitable “spread.” However, the Fed frowns on
   this practice: it wants the discount window normally reserved for the occasional liquidity
   crunch a bank may face when it under-forecasts net deposit withdrawals. Any bank
   making frequent use of discounting is sure to come under most unwelcome Fed scrutiny.

7. What is Federal Reserve float and how does it come into existence?
   Float is the difference between items in the process of collection and deferred credit items. It
   arises because many checks are not collected within the time period established for crediting
   reserves of banks sending checks to the Fed.

8. What must the Fed usually do during December to keep monetary policy unchanged?
   The Fed must carry out defensive open market purchases during December to offset the drain
   in bank reserves caused by increased currency holding that results from holiday shopping and
   gift giving. These operations usually take the form of repurchase agreements.
9. Why does the Federal Open Market Committee use operating and intermediate targets rather than focusing only on ultimate goals?
Operating and intermediate targets are more immediately responsive to Fed actions than are the ultimate goals of high employment and a stable price level. The Fed believes that by working with these intermediate steps they can more easily judge whether their policies are staying on the right track.

10. A. List the Fed’s operating and intermediate targets.
Operating Targets: Reserve Aggregates (Monetary Base, Total Reserves), Federal Funds Rate
Intermediate Targets: Monetary Aggregates (M1, M2, M3), Long-term interest rates, total nonfinancial debt

B. List the Fed’s ultimate objectives/goals.
Rate of inflation
Rate of unemployment
GDP