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.