Monetary Policy

This rubric element wants you to look at the monetary policies in place at the start of your chosen decade.

•Remember that the Federal Reserve controls our monetary policy and they have a four main goals:

1.Price Stability

2.High Employment

3.Economic Growth

4.Financial Market Stability

•The main tools the Fed uses are the decreasing or increasing of the money supply (through open market operations, changing the required-reserve ratio, and changing the discount rate) and changes to interest rates.

•Be sure to read up on these policy tools the Fed uses in our textbook and check out this video for further understanding

•The San Francisco Federal Reserve is a valuable resource for research on Federal Reserve history

•The Federal Open Market Committee (the part of the Federal Reserve that controls open market operations) has site where you can access transcripts of meetings and other historical materials – just enter the year you need!

Monetary Policy Actions

This rubric element wants you to examine what the monetary policy initiatives were going forward, to respond to the changing economic landscape throughout your decade.

•You should specifically state what the intent of the actions were - for instance, the Fed may have used expansionary policy to help expand the economy in response to a recession. Such policies could have been buying up government bonds - this puts money into the economy since the Fed is buying these bonds from a bank and then the bank can use that money in the economy. This open-market operation increases the money supply.

•Then, use our macroeconomic principles and models (like the Supply and Demand of Money model, AD-AS model to show impact of interest rates on equilibrium GDP, Phillips Curve, etc.) to explain why the action would lead to the outcome desired by the government.

•Keep the main points (and any use of graphs to show the economic models) on the slide and use the speaker notes to add full explanation. Scholarly research is required here as well (this may overlap with research from the previous element, as appropriate).

Monetary Policy Impact

After looking at what the Fed set out to do and why, you will now examine if it actually worked.

•You will look at the macroeconomic data (which you already gathered in milestone one - feel free to add more here if needed to support your analysis) to see if policy actions achieved their goals. For instance, if the Fed raised interest rates as a contractionary policy aimed at slowing down inflation, did it work?

•There might also be examples of where the Fed misread the economic landscape and initiated expansionary policy when they should have taken on contractionary policy, or vice versa. Consider all actions taken by the Fed during your decade and analyze their impact on the overall economy, paying particular attention to GDP growth rates, unemployment and inflation.

•Also, consider how individual households and businesses were impacted by the policy decisions. For example, if interest rates were increased, how did this affect people’s ability to buy new homes or cars? How did it affect business investment?