

- 1 Describe two ways that the Fed can increase liquidity and economic activity when the federal funds rate is at the zero-lower bound. Describe how the policies you suggest lead to more consumer or business spending.
- 2 Suppose the Federal Reserve increases its reverse repurchase agreements. Describe how the transaction affects reserves in the banking system and on the money supply.
- 3 The Federal Reserve's primary goals are maximum employment and price stability. Describe how financial market stability can help achieve those goals.
- 4 The Federal Reserve's primary goals are maximum employment and price stability. Describe how exchange rate stability can help achieve those goals.

- 6 Suppose the Federal Reserve conducts an open market sale of bonds. Describe and illustrate the impact on the market for federal funds.
- 7 Suppose the Federal Reserve increases the required reserve ratio. Describe and illustrate the impact on the market for federal funds.
- 8 Suppose the Federal Reserve decreases the interest on reserves rate. Describe and illustrate the impact on the market for federal funds.
- 9 Suppose there is an increase in financial volatility and lenders are less willing to make loans.
 - A Describe and illustrate the impact on the market for federal funds.
 - B Suppose the Fed wants to counteract the impact on federal funds rate from the previous answer. What *defensive open market operation* should it conduct? Describe and illustrate the impact of this policy on the market for federal funds.