ECO 301: Money and Banking
Week 4 Homework: Monetary Policy Tools

Directions: Provide written answers for the following questions and prompts. You may print these sheets and put your answers in the space provided or you may use your own paper to write your answers.

1. Suppose the Federal Reserve conducts an open market sale of bonds. Describe and illustrate the impact on the market for reserves.

2. Suppose the Federal Reserve decreases the interest rate on reserve balances. Describe and illustrate the impact on the market for reserves.

3. 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 reserves.

   (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 reserves. Redraw your answer from part (a) and add the impact of this policy.