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 decreases 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.

5. Suppose the Federal Reserve conducts an open market sale of bonds. Describe and illustrate the impact on the market for federal funds.
6. Suppose the Federal Reserve decreases the required reserve ratio. Describe and illustrate the impact on the market for federal funds.
7. Suppose the Federal Reserve increases the interest on reserves rate. Describe and illustrate the impact on the market for federal funds.
8. 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.