2001 - 2017

Juan Carlos Perez
ECO 202
Dr. Tasto

U.S. Economic History Monetary Policy(2007-2017)

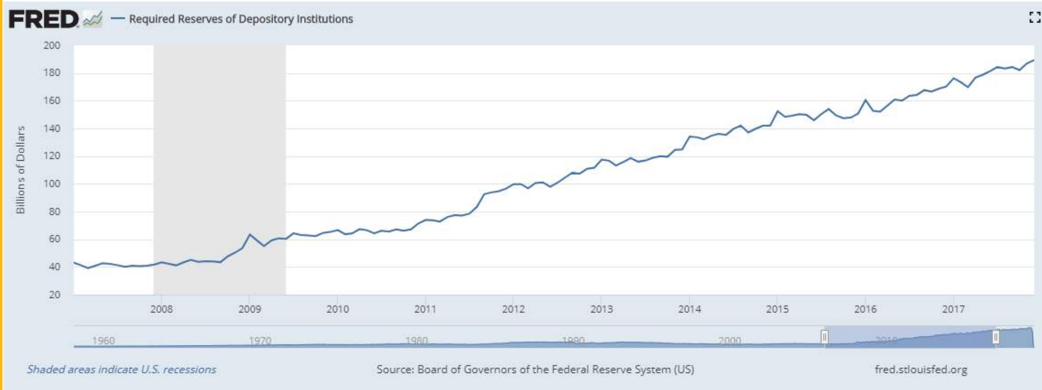
- At beginning of 2007, federal fund rates rate was 5.25% but was gradually reduced to reach zero lower bound – 0 to0.25% at end of 2008

ECO 202

Southern New Hampshire University

The federal funds rate is the interest rate that deposit-taking institutions trade federal funds which are held by the Federal Reserve Banks with each as really short-term loans. The banks with excess in their reserves can lend to banks that require additional balances to quickly raise liquidity (Board of Governors of the Federal Reserve System, 2020). From the graph above, we can see that the federal reserve rate was about 5.25% at the beginning of the 2007 period but was reduced gradually to nearly zero and sustained at that position until late 2015 when it was gradually raised. This was to ease the impact of the economic recession at the time.
This has an expansionary effect on the macroeconomic issues. This has the effect of increasing the amount of loans to the country and as such, enabled businesses and institutions to survive the period.

U.S. Economic History Monetary Policy(2007-2017)



ECO 202

Southern New Hampshire University

The minimum cash requirement for a commercial bank is set by the central bank and is a monetary policy that looks at protecting the depositors. The reserve requirements for depository institutions at the beginning of the period was $43.601 billion but was increased steadily during the period steadily to a reach a high of $189.269 billion (Board of Governors of the Federal Reserve System, 2020).
The increase in reserve requirements has an effect on the macroeconomic policies by tightening the credit reserves as a way of creating increased capital inflows and enabling the appreciation of the currency.

Policy Actions (2007 to 2017)

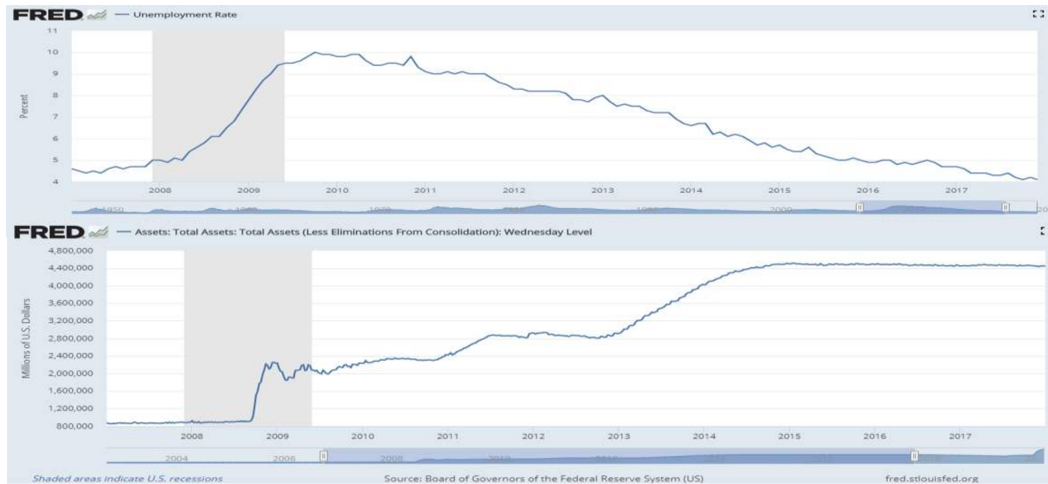
- Increase money supply to economy
- Inflate currency
- Offering low interest rates for businesses to create expansion
- 2009 – FED begins quantitative easing by purchasing treasury and other securities – looked at increasing money supply – encourage household consumption and business expansion, government could also run larger deficits for offering increased economic stimulus to the country

ECO 202

Southern New Hampshire University

The main aim of the policy actions during the 2007 to 2017 era was to increase the money supply to the economy and to inflate the currency. Some of the actions taken include the lowering of interest rates for businesses to create expansion. In 2009, the FED began quantitative easing by purchasing treasury and other securities as a way of increasing money supply to the economy. As a macroeconomic effect, the action was aimed at encouraging increased consumption by households and in-turn increased business expansion. Additionally, the government was able to run under a larger budget deficit thus allowing for increased economic stimulus to the country.

Policy Actions – comparison of unemployment and increasing asset class for government



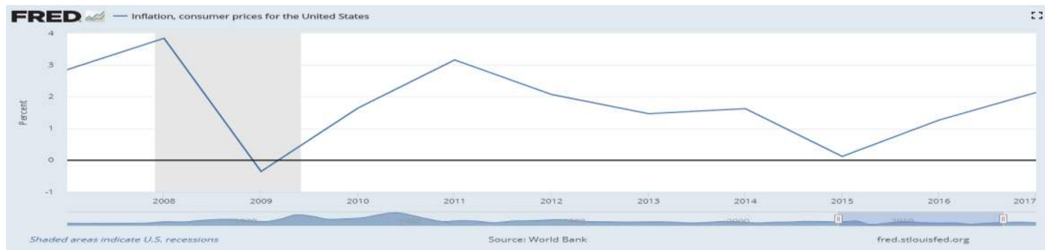
ECO 202

Southern New Hampshire University

The use of quantitative easing had a positive effect on the creation of employment which was a key target for the government during the ten-year period. At the time of 2009 when there was introduction of massive asset acquisition from treasury and other securities as seen in the graph, the unemployment rate was peaking. However, the increased quantitative easing enabled an increase in money to the households leading to an increase in the demand for business products and services. This can be seen to lead to reducing unemployment and stabilizes as quantitative easing stabilizes.

Impact of Increasing Cash Reserves

- As employment increases, there is increase in money supply
- Inflation risk is also high
- The institution of increasing cash requirements checks inflation by reducing money supply available to banks to offer as loans to businesses and individuals



ECO 202

Southern New Hampshire University

As the rate of employment increases, there is an increase in the money supply to the economy. As a result, there is a risk of inflation. The increase in cash requirements enables the regulation of inflation by decreasing the amount of money supply in the economy. This is done by increasing the reserve cash requirements for banks thus reducing amount of money that can be given as loans to businesses and individuals. As a result, there is reduced inflation. As seen in the graph, there was a gradual decline in inflation over the period.

References

- Board of Governors of the Federal Reserve System (US), Effective Federal Funds Rate [FEDFUNDS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/FEDFUNDS, June 7, 2020.
- Board of Governors of the Federal Reserve System (US), Required Reserves of Depository Institutions [REQRESNS], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/REQRESNS, June 6, 2020.
- Board of Governors of the Federal Reserve System (US), Assets: Total Assets: Total Assets (Less Eliminations From Consolidation): Wednesday Level [WALCL], retrieved from FRED, Federal Reserve Bank of St. Louis; https://fred.stlouisfed.org/series/WALCL, June 7, 2020.