

Chapter 10

Objectives

- Define money and barter
- Discuss the three functions of money
- Identify and calculate M1 and M2
- Define bank reserves, 100% and fractional reserve banking
- Calculate the reserve/deposit ratio
- Calculate the maximum amount a bank can lend and the effect of lending on M1
- Define the federal reserve System and its parts
- Define open market operations
- Discuss the discount rate and reserve requirement
- Explain how the Fed can use the three tools of monetary policy
- Define bank panic and deposit insurance
- Explain the Fed's role in stabilizing financial markets
- Discuss the relationship between money and prices
- Understand and explain the quantity equation